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All change?

A 14-PAGE SPECIAL REPORT ON THE FUTURE OF AMERICAN FOREIGN POLICY

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Print Edition March 29th 2008

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Whether it is Clinton, McCain or Obama, the world will still quarrel with America: leader

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Politics this week

Mar 27th 2008
From The Economist print edition

Reuters

The **Iraqi** army waged a fierce battle in Basra, the country's biggest southern city, in an effort to squash militias loyal to a radical cleric, Muqtada al-Sadr. The operation prompted Sadrists across the south and centre and in Baghdad to rise up in solidarity. At least 70 people, most of them Sadrists, were reported to have been killed. See article

The American vice-president, Dick Cheney, toured the Middle East as part of an effort to advance **Israeli-Palestinian** peace talks and to tell America's allies of its worries about the high price of oil. He visited Oman, Saudi Arabia and Turkey, as well as Israel and the West Bank.

As pollsters predicted that President Robert Mugabe would be defeated if the election in **Zimbabwe** on March 29th were fair, the country's electoral commission changed the rules to allow police into polling stations and said that the votes would be counted centrally rather than at the stations. Both tactics would make rigging easier.

Humanitarian agencies said that 20,000 people a month were fleeing violence in **Somalia's** capital, Mogadishu. The warning preceded a United Nations Security Council meeting to consider sending 27,000 peacekeepers to Somalia to replace a struggling African Union force of around 2,000, most of them Ugandans.

In a rare military intervention, an AU force of more than 1,300 troops invaded Anjouan, one of three islands that make up the **Comoros**, 300km (186 miles) off the coast of Mozambique, and toppled its rebel leader, Mohamed Bacar. He was said to be on the run.

Another special relationship

The **French president**, Nicolas Sarkozy, declared that France and Britain had never been so close. Addressing both houses of Parliament during a state visit, he called for a new Franco-British brotherhood and insisted that “we need you, the British, within Europe”. Mr Sarkozy, who was accompanied by his new wife, Carla, later held summit talks with Britain's prime minister, Gordon Brown, at the Emirates Stadium, home of Arsenal football club.

The United Nations began clearing mines on Ledra Street in Nicosia prior to reopening the crossing-point between the Turkish north of **Cyprus** and the Greek-Cypriot republic. This followed a meeting between the new Cypriot president, Demetris Christofias, and his Turkish-Cypriot counterpart, Mehmet Ali Talat, when the two leaders decided to restart formal peace talks.

Police in **Belarus** arrested dozens of protesters and broke up a big rally that was marking 90 years since the country first declared (brief) independence in 1918. The authorities also accused the Americans of operating a spy ring within their embassy.

A vocal constituency

AP

In **Argentina** farmers blocked roads in an intensifying protest against a rise in export taxes decreed by the government of Cristina Fernández de Kirchner. After she accused the farmers of “extortion”, thousands of pot-banging anti-government demonstrators took to the streets of Buenos Aires. See article

Brazil's government sent extra doctors and nurses to Rio de Janeiro in response to an outbreak of dengue fever in which some 30,000 people have

been taken ill and at least 49 have died. See article

Ecuador said it would protest to the Organisation of American States after it was revealed that one of a score of people killed in a Colombian bombing raid on a FARC guerrilla camp inside its territory was an Ecuadorean citizen. Ecuador's president, Rafael Correa, said this would complicate the restoration of diplomatic relations with **Colombia**, which he severed after the raid.

Taking some real flak

Campaigning for the Democratic presidential nomination rumbled on. **Hillary Clinton's** claims about her foreign-policy experience were scrutinised. To her embarrassment, the former first lady had to retract a story that she had run for cover from sniper fire upon landing when she visited Bosnia in 1996. Contemporary television footage depicted a peaceful reception and a smiling Mrs Clinton. See article

Meanwhile, pundits continued to ruminate over whether the racially charged rantings of **Barack Obama's** former pastor would ultimately damage the Illinois senator's presidential ambitions. Mr Obama did receive a boost, however, by securing the endorsement of Bill Richardson, the Latino governor of New Mexico and a party bigwig.

John McCain returned from a visit to the Middle East and Europe and made a speech on foreign policy in which he said America should work more closely with its allies and needed to do more to shore up its position as world leader. This was seen as an attempt by the presumptive Republican presidential candidate to distance himself from the Bush administration.

It's all right Ma

AFP

Ma Ying-jeou of the Nationalist party, the Kuomintang, won the presidential election in **Taiwan** by an unexpectedly wide margin of 17 percentage points over his rival, Frank Hsieh of the ruling Democratic Progressive Party. Mr Ma has promised to improve relations with China, starting by opening direct transport links with the mainland. See article

Protests against Chinese rule continued in ethnic-Tibetan areas of **China**. Chinese police opened fire in at least one clash. Meanwhile, the lighting in Olympia, Greece, of the flame for the Olympic games to be held in Beijing in August was briefly disrupted by protesting press-freedom activists. Nicolas Sarkozy, France's president, said he could not rule out boycotting the opening ceremony for the games. See article

In **Pakistan**, Yousaf Raza Gillani of the Pakistan People's Party (PPP) was sworn in as prime minister at the head of a coalition government. He immediately freed judges detained under President Pervez Musharraf and promised to restore them to their jobs. Once a by-election has been held, Mr Gillani is expected to make way as prime minister for Asif Zardari, who has been acting head of the PPP since the assassination of his wife, Benazir Bhutto, in December. See article

In a transition to democracy ordained by its king, **Bhutan** held its first-ever elections. The two parties had similar platforms. Both preferred the monarchy to democracy. See article

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Business this week

Mar 27th 2008
From The Economist print edition

JPMorgan Chase increased its recent offer for **Bear Stearns** to $10 a share from $2 to win the support of Bear's many unhappy investors. JPMorgan, which stepped in to rescue its rival during a run on its assets amid bankruptcy rumours, was praised by some for raising the price to keep a deal afloat. Others questioned the arrangement and the Federal Reserve's part in it. The central bank is backing $29 billion of Bear's illiquid assets, which critics argue amounts to bailing out a company that took reckless risks. See article

Britain's **Financial Services Authority** recommended improvements to its oversight of the banking industry after the collapse of **Northern Rock**, a mortgage lender stricken by the credit crisis and later nationalised. The FSA admitted to failures in supervising the bank; it promised to recruit extra staff and work more closely with financial institutions. But its mea culpa didn't go far enough for critics of the debacle, who want a review of the Bank of England's role. See article

Two **private-equity firms** trying to buy **Clear Channel**, America's biggest radio-station network, filed lawsuits to force Wall Street banks to supply the funding they had arranged for the $19.5 billion deal. It is one of the biggest recent buy-outs to face collapse because of credit woes.

Citigroup agreed to pay $1.66 billion to **Enron's** creditors, settling the last of the “mega claims” brought against 11 banks and brokerages for their alleged involvement in the energy trader's collapse.

If at first you don't succeed

Motorola said it would split its mobile-phone business from its networking division and that the two would trade as separate companies. Motorola's handsets, such as the RAZR, have lost market share to more sophisticated devices and been a drag on earnings. Carl Icahn, a veteran investor who pushed Motorola to spin off the division, recently reignited his battle to nominate directors to the board.

The long-awaited sale of Ford's **Jaguar** and **Land Rover** to Tata Motors was announced; the Indian company is paying around $2.3 billion for the luxury-car brands. Ford acquired Jaguar in 1989 and Land Rover in 2000, but is now restructuring its business around its more basic models. See article

Not this time

Vale, a Brazilian mining company, abandoned its plan to combine with **Xstrata**, its Swiss rival, after talks failed to produce a deal that would have created a mining giant. BHP Billiton is persevering with its offer for Rio Tinto.

BP's joint venture in Russia ran into more bother from the authorities. **TNK-BP** acknowledged it was having trouble renewing visas for 148 mostly British and American employees. In addition, the interior ministry said it was investigating alleged tax evasion at a former subsidiary of the company. A low-level worker at TNK-BP was also recently charged with industrial espionage. Last year, TNK-BP responded to threats to its licence to operate in a gas field by agreeing to sell its stake in the project to Gazprom, the state gas company. See article

The state government of São Paulo cancelled an auction that would have privatised **CESP**, an energy group that provides 10% of Brazil's electricity, when the potential buyers backed away over regulatory concerns. But São Paulo's governor also speculated that the bidders would have had trouble raising the 6.6 billion reais ($3.8 billion) price in the credit markets.

Sunbelt blues

House prices in 20 American metropolitan areas fell by 10.7% in January compared with a year earlier, according to an index from Standard & Poor's and Case-Shiller; annual growth rates were at a record low in 16 of the 20, most notably in the south-west. A despondent housing market did receive some good news. **Existing-home sales** rose in February at an annual rate for the first time in seven months, according to the National Association of Realtors.

The proposed merger between **XM** and **Sirius**, announced in February 2007, was approved by the Justice Department. This combination of the only two satellite-radio networks in America (with their stable of talk-radio stars) is opposed by other broadcasters. However, the Justice Department reckoned the deal would not create a monopoly because of competition from the internet.

Starbucks said it would appeal against a ruling ordering it to repay $105m in tips, including interest, to its baristas in California. An employee had complained about the company's policy of sharing the tip jar with shift managers, which, a judge decided, was contrary to state law. The coffee chain maintains that supervisors “deserve their fair share” of the gratuities; the baristas claim their tips are subsidising managers' wages.

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KAL's cartoon

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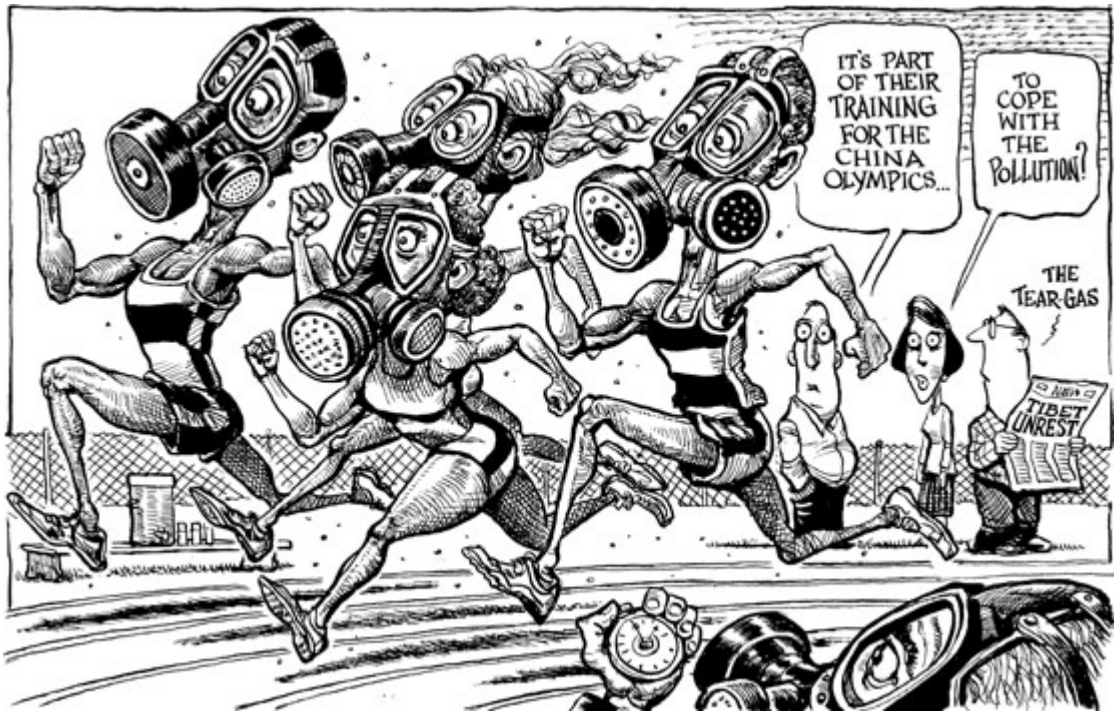
Illustration by Kevin Kallaugher



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American foreign policy

All change?

Mar 27th 2008
From The Economist print edition

Whether it is Clinton, McCain or Obama, the world will still quarrel with America's foreign policy

TO JUDGE by the polls, millions of people in America and around the world are gasping to see the back of George Bush. With his going, America can extract itself from a catastrophic war in the Middle East, stop its preaching and bullying, win back lost friends and rediscover its founders' advice to show a decent respect for the opinions of mankind. Or so the millions hope. They had better prepare for a disappointment.

There are several ways in which the next president can indeed act fast to restore America's world standing. But the list is short. The mere fact of not being Bush will bring a dividend of goodwill. On top of this, he or she should send out an early message that on some issues the change of guard will mean a change of heart. An America that closed Guantánamo, imposed a clear ban on any sort of torture (by the CIA as well as the army) and shut the CIA's secret prisons could once again claim to lead the free world by example and not just by military power. A new president should also say more forthrightly than Mr Bush ever dared that America means to co-operate in the fight against global warming, and will consider joining the International Criminal Court. Mr Bush's cavalier rejection of the Kyoto protocol, and his hostility to the ICC, did much to antagonise the world even before the war in Iraq.

After the easy wins

All these would be welcome changes of substance and symbolism. But even this short list will throw up difficulties. Closing Guantánamo may require America to try the suspected terrorists it can build a case against but let the others go free—free, if nobody else takes them, on American soil. And although it is easy for a president to promise international co-operation on climate change, it is hard to make Congress enact laws that trample on vested interests, threaten to hamper growth or price Americans out of their huge cars. The Senate would not have ratified Kyoto even if Mr Bush had asked it to.

Besides, these “easy” early wins do not come close to encompassing the broad sweep of policy that the wider world wants the new broom to change. Millions of Europeans (including the faithful Brits—see our poll) want America to stop playing world sheriff and submit to the same rules as everyone else under the United Nations. A billion or more Muslims want America to boot Israel out of the West Bank, if not dismantle the Jewish state altogether. Strong constituencies at home and abroad are impatient to see America quit Iraq and Afghanistan. It is not just Russians who find America's plans for missile defence in Europe provocative, or Iranians who say the sanctions against Iran's nuclear programme reek of double standards. Most of the world sympathised with America after September 11th, but a large and prickly

chunk of it now sees its war against terrorism as a war against Islam.

You have only to inspect this catalogue of things different parts of the world want America to do or to stop doing to see that the new president's honeymoon will be short. No president can satisfy this great welling up of external demands.

And none, of course, should try. Showing a decent respect for the opinions of mankind does not mean competing in a global popularity contest at the expense of sound policy. Much of the next president's foreign policy will, rightly, continue the present one. Its central aims will include preserving the NATO alliance (see article), holding the line against nuclear proliferation, and undergirding the security of allies such as Japan, Taiwan and South Korea in Asia and Israel and the Gulf Arabs in the Middle East. America under a new president will need to adapt to the relentless rise of China without seeking refuge in a self-defeating protectionism, keep a weather eye on a newly obstreperous Russia and—yes—continue to seek out and fight al-Qaeda and other terrorists.

America has a tradition of bipartisanship in foreign policy. As our special report this week argues, Iraq makes this election different. For the Republicans, John McCain has said that America must finish the job even if it lasts a hundred years. Both Democrats promise to start withdrawing troops in early 2009. A stark choice, at first blush. But look beyond the hyperbole. Barack Obama promises to have most combat troops out within 16 months, but would leave some behind; and Hillary Clinton will commit herself only to 2013—if possible. Though many Democrats are angered by such wriggles, the candidates are wise not to box themselves into a corner on Iraq (as, alas, they almost have on NAFTA and free trade).

No matter where you stood in 2003, and we argued for the invasion (see article), it is impossible to deny that the war in Iraq turned into a humanitarian calamity. Its fifth anniversary coincided with the loss of the 4,000th American soldier and a new outbreak of fighting (see article). But the overall trend since the start of General David Petraeus's “surge” last year has been positive. For a future president to decide now what to do in Iraq a year hence would be folly. However flawed the reasons for invading Iraq, the consequences of a premature exit could be worse, not just for America's own standing in a region vital to its economic and security interests, but for the Iraqis too.

Much will stay the same

It is peculiar how often foreigners are surprised to learn that American presidents serve American interests, not those of the world at large. Often, these interests overlap. America and the rest of mankind will benefit alike from tackling climate change and from spreading democracy, free markets and a liberal trading system—and the peace on which such a system depends. A new president needs to make this case anew. But they do not always overlap. And in a world that is still Hobbesian, the country that is for now still the world's sole superpower is going to continue to put its own interests first.

That is why Mr Bush's promise of a “humble” foreign policy could not survive the extraordinary attack that fell on America on September 11th and sucked him into Afghanistan and Iraq. By the second term a chastened administration was once again seeing the value of working with allies when that is possible. But when it is not possible, America relies on itself. The instinct of the next president will be no different.

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Aviation

How to fix Heathrow

Mar 27th 2008
From The Economist print edition

Do not pay a fortune to make Heathrow bigger, when it can first be made so much better

AP

Get article background

LONDON'S Heathrow is the world's busiest international airport. It handles nearly half of the passenger traffic between North America and Europe. It connects the City of London to the rest of the world. It is the fortress that guards the lucrative transatlantic business of British Airways (BA). In anticipation of this month's start of the “open skies” agreement between America and the European Union, other airlines are queuing up to fly from it too.

Yet Heathrow is also the world's most abhorred international airport. It suffers the worst flight delays and loses the most bags. Its endless security queues, rude staff and shoddy facilities plague passengers. Its owner, BAA, which also runs the two other main London airports, Gatwick and Stansted, is an object of much ridicule (see article).

Despite the inevitable first-day glitches, the £4.3 billion ($8.5 billion) Terminal 5, which opened this week, will improve Heathrow for the 40% of passengers who fly with BA. But new terminals will not solve the real problem: a lack of runways. Heathrow has only two, which operate within a whisker of full capacity. It cannot grow to meet demand. And, when something goes wrong, small delays become big ones.

The British government thinks this frames the case for a third runway at the airport. To the fury of local residents and green campaigners—and cheers from the aviation industry—it argues that Heathrow must expand if Britain is to have the competitive hub airport it needs. A decision has been promised before the summer. It looks like being the wrong one.

Up in the air

With the closure of Hong Kong's Kai Tak a decade ago, Heathrow ranks as the airport that does most harm to people living nearby. Thanks to its westerly winds and the east-west axis of its two runways, about 2m people in West London and neighbouring towns endure noise, air pollution and the small, ever-present risk of a catastrophic accident. By relaxing operating restrictions on Heathrow's runways and adding another, BAA reckons it can raise the number of flights from today's limit of 480,000 a year to 720,000. BAA and the government think that because aircraft are getting quieter and cleaner the extra flights will be bearable. But that conclusion is disputed by the government's own watchdog, the

Environment Agency.

If the environmental externalities were the only cost of expanding Heathrow, you could perhaps mitigate them by charging airlines for pollution (a good idea, anyway). However, the other reason to doubt the wisdom of letting Heathrow go on growing—the constraint on space imposed by its location in London—is less easy for the government to dispense with. Passenger-traffic forecasts suggest that, shortly after a third runway opens, in 2020, Heathrow will be full again. BAA has talked about a fourth runway, but not even the most ardent Heathrow expanders can say where it would go.

The government thinks this hell is worth it: the British economy benefits from having Heathrow as a competitive hub airport, because the more transit passengers there are—they have grown from 9% of the total in 1992 to 35% in 2004—the bigger the route network and the more valuable the airport is to Britons. But Heathrow will never be a desirable hub airport, because of where it is. It will continue to be out-gunned by Paris Charles de Gaulle, Amsterdam Schiphol and Frankfurt, all of which have twice the runway space, greater potential for expansion and better surface transport.

One alternative is to start again. Time after time in country after country, hub airports have been rebuilt farther away from city centres. In the 1970s Britain toyed with the idea of building a big new airport in the Thames estuary to the east of London. But the scheme was overtaken by economic crisis, and the stranglehold of BAA and BA, both of which have a lot invested in Heathrow, has prevented its revival.

A new airport may yet be needed. But, in the meantime, there are ways of making Heathrow better. It is crowded because it is too cheap for airlines to use and because BAA has been encouraged to stuff it full of transit and leisure passengers who it hopes will spend money in its shops. Business travellers, who generate the most value for the wider economy, account for only a third of the airport's passengers.

This suggests a better solution to the overcrowding. First, the price for using Heathrow should reflect the value and scarcity of its capacity. Second, any new capacity should be built at London's other airports. And, third, these airports should be set free to compete with Heathrow by breaking up BAA.

Higher charges would drive transit passengers to the hubs in continental Europe. That would be no great loss. Although transit passengers help BA and BAA, they do little for Britain's economy. If the route network shrinks, the least-useful routes go first. In any case, because lots of people want to fly to and from London, transit passengers are less crucial to maintaining Heathrow's route network than the government thinks.

Competition between Heathrow, Gatwick and Stansted would help too. Stansted, with a second runway, would suck in leisure traffic. The new owner of Gatwick, much better placed to grow than Heathrow, would have good reason to build a second runway after 2019 (when an old planning agreement expires), with the aim of attracting one of the big airline alliances—and thus becoming a hub itself.

Slowly does it

Such changes call for an overhaul of the way Britain runs air travel. At present, the landing charges for Heathrow and Gatwick are fixed by the Civil Aviation Authority, which juggles desire for low prices with the need for BAA to invest and make money. It should be told to think instead about charging a full price for using Heathrow, and the resulting excess profits at BAA should be taxed. The incumbent airlines, the big losers, would have to accept that their slots would be worth less and that they would pay more (which is one reason to phase in the change), but their passengers would gain a functioning airport. It is time for the British government to realise that it is not its job to be the champion of the aviation industry.

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Tibet and the Beijing Olympics

A sporting chance

Mar 27th 2008
From The Economist print edition

It is not time for a boycott of the Beijing Olympics. Yet

Reuters

BERLIN, Tokyo, Mexico, Moscow, Los Angeles, Seoul: the Olympic games are often “political” events, occasions for the flaunting of national progress, or for protesters to enjoy global publicity. The Beijing Olympics this August were never going to be any different. Indeed, when it competed for the right to play host to the games, China used a political argument: that this would help China's “reform and opening”. But the games are now overshadowed by the spectre of nationalist unrest in Tibet and China's unyielding response to it. In some Western countries there have been calls for governments to back a boycott of the games. To heed such calls now would be misguided.

It would not only be counterproductive, encouraging a more intense frenzy of the xenophobic Chinese nationalism foreign reporting of events in Tibet has already provoked (see, for example, some of the comments on our own website). It would also mean relinquishing one of the best levers the outside world has had in recent years over China's government: its obsession with making a success of the Beijing Olympics.

It is now plain that this month's rioting in Lhasa was not an isolated venting of anti-Chinese spleen (see article). It was part of a broader outpouring of fury felt across the Tibetan plateau. China has responded in time-worn, depressing fashion: with massive numbers of troops; with the trundling out of Cultural Revolution-era political invective (“The Dalai Lama is a jackal wrapped in a habit, a monster with human face and animal's heart.” For pity's sake); and with the exclusion of the foreign press from affected areas. But it has not quelled all protest, nor suppressed news of clashes, in some of which Chinese troops have opened fire. In the age of the mobile phone and internet, photographic evidence soon circles the globe.

That is one reason for China's relative restraint, compared with the last big protests it faced in Lhasa, in 1989, and indeed in Beijing later that year. But the Olympics are another. China may rail against those seeking to “politicise” a sporting occasion. But it knows that it has itself introduced the most political elements: a torch relay taking the Olympic flame round the world and, provocatively, through Tibet; and an opening ceremony to which it has invited the world's leaders.

The eternal flame

Outside China, the torch relay will attract protests about Tibet, about the suppression of the Falun Gong spiritual movement, and about China's links with Sudan and Myanmar. China will be confronted with the anger felt by ordinary citizens. And, if it does not moderate its behaviour, it will face the risk that foreign statesmen—as France's Nicolas Sarkozy has already threatened—may find it politically impossible to

attend the opening ceremony. China's big party may be a damp squib. Beyond that, it risks foreign governments leading a sporting boycott, devaluing all those medals its athletes will win.

Already, the Olympics seem to have encouraged modest changes in China's policy towards Sudan and Myanmar. They may have influenced this week's decision to give Chinese internet users access to the BBC's website. This hardly amounts to the reformist surge optimists hoped the Olympics might bring. But it does suggest that at least some Chinese leaders recognise that it is their behaviour, not that of foreign governments, that will determine the success of the Beijing games.

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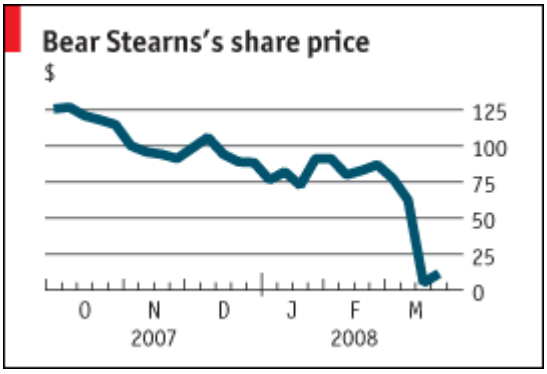
Banking

The regulators are coming

Mar 27th 2008
From The Economist print edition

Now that investment banking is backed by the state, it needs re-regulating. Carefully



THE task of making financiers pay for their mistakes would tax St Peter himself. Last week this newspaper applauded the Federal Reserve's decision to put $30 billion of public money behind JPMorgan Chase's rescue of stricken Bear Stearns (see article): not only did it stop a systemic collapse, it heaped most of the pain on Bear's investors, who received a mere $2 a share. But on March 24th, after howls from those investors, JPMorgan increased its offer to $10 a share—an extra $1 billion or so. Taxpayers have every reason to feel aggrieved. Without help from the Fed, Bear's shareholders might well have received nothing at all, and yet the state is stuck at the back of the queue—guaranteeing a $29 billion slug of Bear's worst assets (see article).

That is just the start. The Fed has signalled that it will now stand behind investment banks like Bear, and it has agreed to provide emergency lending to them for the first time since the Depression. The banks' share prices duly rallied. Sharp minds up and down Wall Street must be sitting down to work out how to turn the state's new commitments to their advantage.

Finance, like any other industry, is chiefly regulated by people taking responsibility for their actions. Ideally, the market keeps score: although you cannot legislate for luck, successful financiers tend to get rich and unsuccessful ones go bust. But what do you do when risk and reward are skewed? When Bear's shareholders gain at the taxpayer's expense? Or when the other investment bankers and their shareholders take on that extra bit of risk, knowing that they keep all the gains, but that the state will shoulder some of the losses?

A tempting answer is that the state should refuse to help. But its hands are tied: Bear is so entangled in the market that leaving it to fail would have caught others up in the mayhem and multiplied the harm. Taxpayers have an interest in upholding the general rule that each business must stand alone—but not when that business's fall would wreck the financial system and threaten their own livelihoods. Even if the Fed had joined Bear shareholders in eking out better terms from JPMorgan, as it should have, the state's pretence that it could walk away would have convinced nobody. As Jimmy Cayne, Bear's bridge-mad chairman, might say, it had a weak hand.

Equally tempting—and just as wrong—is the idea that, with enough new rules, the state can ensure that a crisis never happens again. Wrong, because it flies in the face of five centuries of financial booms and busts. Civil servants, however dedicated, cannot outwit the combined forces of the world's bankers. And it is through risk-taking and innovation that banks benefit the economy (finance does that too, remember).

That leaves the regulators with a balance to strike. In exchange for its new risks, the state must protect taxpayers by tighter regulation of any institution too entangled to fail. As Hank Paulson, America's treasury secretary, implied this week, the Fed should surely have more power; and its aid should come at a high cost, so banks seek help only as a last resort.

Already there is a bull market in reform proposals—from protecting only “narrow banks” (which restrict their business to safe lines) to controlling bankers' pay, perhaps even clawing back bonuses if the bank fails. In fact both those ideas show how hard it will be to craft solutions. Narrow banks are even more vulnerable than banks that can spread risk using a portfolio. They do not solve the frailty of entanglement elsewhere in the system—not unless you ban the trading that defines modern finance. As for bankers' pay, it may have exacerbated the crisis, but how exactly would you regulate it? And what

good would it do? Greedy investors and ambitious bankers are quite able to cause crises even without those bonuses.

Instead the regulators should be guided by three precepts. First, principles are better than detailed rules, which can be gamed. Banks lodged vast sums off their balance sheets because they had to obey the intricate codes defining capital adequacy, rather than using their judgment. Second, sound capital is the basis of sound banking. In good times more lending and rising asset values mean that booms feed on themselves. Hence capital requirements should rise during booms and fall in busts. And third, do not ban financial instruments. The pariahs of one age—programme-trading, short-selling, junk bonds—are usually reborn in respectable garb in the next. The system is accident-prone, but it rarely makes the same mistake twice. Take comfort from that if you dare.

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Argentina's taxes on food exports

Killing the pampas's golden calf

Mar 27th 2008
From The Economist print edition

A contender for the dottiest tax around—and its use is spreading

Illustration by Claudio Munoz

Get article background

FEW countries are as blessed by nature as Argentina. Plant wheat or soyabeans in the fertile pampas and they will produce bounteous crops. Turn a cow loose and you will have some of the world's best beef. So at least goes the stereotype. In fact, Argentine farmers are among the world's most nimble and efficient. They need to be: few countries have been as badly governed as Argentina. Over the past 70 years it has often been the farmers and their exports that have rescued the economy only to see populist governments in Buenos Aires plunder the Pampas to placate their urban voters.

That pattern is repeating itself. This week Argentina's farmers have been blocking roads in protest at what they see as a punitive rise in a tax on their exports (see article). With world prices for wheat and soyabeans at record levels, Argentina's president, Cristina Fernández de Kirchner, reckons that the farmers ought to share their windfall with the rest of the country. And the idea is catching. With stocks of some staple foods suddenly in short supply, governments around the world are slapping taxes or quotas on agricultural exports in the hope that this will stop prices from rising at home (see article).

Virtually every tariff is a little piece of economic madness; but one aimed at hobbling your best exporters would seem to take the *galleta*. Like many crazy ideas, it began as a temporary (and not wholly mad) scheme. In 2002 Argentina was felled by financial collapse, debt default and a massive currency devaluation. Half the population descended into poverty and unemployment reached 21%. But exporting farmers received a windfall from devaluation, augmented when world prices for farm commodities promptly began to rise. So the government imposed export taxes, initially of 20% or so. As an emergency measure this could be justified on two grounds. First, it discouraged farmers from leaving the local market unsupplied, which would have pushed prices up for newly impoverished urbanites. Second, it contributed to a fiscal surplus, helping the government stabilise the economy.

Gauchos grilled

With farm exports growing regardless of the taxes, Argentina bounced back strongly. But instead of getting rid of the taxes, Néstor Kirchner, Ms Fernández's predecessor and husband, intensified them. He even banned beef exports for six months, wrecking years of patient brand- and market-building abroad and encouraging farmers to switch to crops. His public-spending binge has turned robust economic recovery into wild overheating. Inflation is eating into urban incomes and exporters' competitiveness. At their new punitive levels of up to 40%, the export taxes are likely to trigger a decline in farm output and,

eventually, a fresh balance-of-payments crisis. And if prices fall, farmers will be in a poor shape to cope.

All this applies even more in other countries with less efficient farmers than Argentina and without the excuse of its recent social emergency. If they curb food exports, governments may buy short-term relief for consumers—but at the cost of lowering output and domestic incomes and switching resources into producing other things. It is the political equivalent of a gaucho lassoing himself with his own *bolas*.

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On NAFTA, local government, crime, Wikipedia, Eliot Spitzer, plastic bags, buffalo meat, London

Mar 27th 2008
From The Economist print edition

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A second look at NAFTA?

SIR – Far from engaging in political posturing over NAFTA, the Democrats are questioning the free-trade agreement and others like it probably because they have seen the results in the United States and its trading partners ("An unreliable ally", March 8th). For example, Mexico's average annual GDP growth since NAFTA came into force in 1994 has been a dismal 3.1%. Over that period, Mexico's growth was the 11th slowest among continental Latin American countries, none of which had a long-standing free-trade agreement. Furthermore, Mexican immigration to the United States exploded after NAFTA precisely because the agreement devastated Mexican agriculture and drove 1.6m farmers and workers off the land.

Farmers, workers, small entrepreneurs and intellectuals in Latin America are increasingly convinced that free-trade pacts favour multinational companies. Many of us living in countries that have ratified a free-trade agreement are looking with interest at the possibility of revising NAFTA. We would welcome renegotiations that included higher standards for environmental protection and workers' rights.

Ottón Solís
Former Costa Rican presidential candidate
Gainesville, Florida

Town divisions

SIR – The merging of Louisville's government with those of the suburban towns that surround it should be commended, as local governments in America have been leaning towards fragmentation ("Rise of the super-mayor", March 8th). The history of local government in America is nearly 100 years older than that of the nation itself, starting in 1681 when William Penn was granted a charter by Charles II to divide the colony of Pennsylvania into "townes, hundreds and counties", and boroughs and cities.

Fast-forward more than 320 years and in Washington state's King county alone there are 166 taxing districts that overlap in 550 different ways, creating 247 property-tax rates. The Seattle metropolitan area has one taxing district for every 6,600 people, a ratio similar to the Chicago metro area but one that is five times worse than greater Los Angeles. Citizens find this fragmentation extremely complex and confusing. I find it appalling; a vicious cycle of intergovernmental cannibalism.

Scott Noble
Assessor, King county
Seattle

Swapping the suit and tie

SIR – You suggest that the biggest legal worry for a company under investigation for corruption in America comes from the "much-feared Securities & Exchange Commission" (Face value, March 8th). It is true that the SEC can impose very heavy sanctions for violating American anti-bribery law, including requiring companies to disgorge profits earned through corrupt payments. But these penalties would be dwarfed by those imposed by the Justice Department when it gets involved. It can levy criminal fines and even imprisonment. Paying a company fine is one thing; getting fitted for an orange jumpsuit for federal prison is something quite different.

Thad McBride
Washington, DC

Not so Wikied

SIR – I disagree with your view that few people actually contribute new content to Wikipedia because new articles "quickly get lost in Wikipedia's Kafkaesque bureaucracy" ("The battle for Wikipedia's soul", March 8th). Having created some 50 articles on the website (mostly on water supply and sanitation in developing countries) I have not come across the obstacles you describe.

On the contrary, I found that comments from other Wikipedians concerning neutrality, precise references and presentation further improved the articles. Nor were my contributions deleted. The true challenge for Wikipedia is to overcome misconceptions about the way it works among highly skilled professionals and to provide incentives to these same professionals to chip in to articles. If these two obstacles can be overcome, Wikipedia's already tremendous potential will be even more amplified.

Manuel Schiffler
Senior economist
World Bank
Washington, DC

SIR – Wikipedia's main problem is less the struggle between the inclusion and deletion of subjects but its cohesion in different languages. What is true in one language should not be untrue (or uncertain) in another language for the same encyclopedia.

Guido De Weerd
Antwerp, Belgium

The governor and the escort

SIR – Stop with the cheap shots about America's "puritanism" regarding Eliot Spitzer's disgusting conduct (Lexington, March 15th). The former New York governor's entire political raison d'être was his suffocating rectitude. Once that was exposed as a fraud his political legitimacy ceased to exist. Americans are much more tolerant than you imagine when it comes to sex, but we do get very upset when we've been conned.

Fredric Morck
Redwood City, California

Taxing a useful invention

SIR – I was surprised to read that Britain's chancellor is proposing a tax on plastic shopping-bags (The world this week, March 15th). A recent study in Australia found that banning plastic bags would cost the economy A$1 billion (around $900m) and result in job losses. That is before you properly account for all of the secondary uses for plastic bags, some of which actually help reduce litter. It is also doubtful that getting rid of the bags would have much of an impact on the environment. Heavier shopping bags are not all that "reusable" and have to be replaced. So what is the upside in taxing plastic bags? Maybe it is just the political kudos that comes from pandering to public opinion.

Gerard van Rijswijk
Sydney

A meaty debate

SIR – Your briefing on saving endangered species ("Call of the wild", March 8th) did not mention the best-known example of a species that has been brought back from the brink of extinction by market forces: the American buffalo. Thanks to the efforts of a few entrepreneurs who understood that the best way to save the bison would be to raise it commercially, buffaloes are now plentiful and providing a healthy alternative to beef on American tables.

Lee Nason
New Bedford, Massachusetts

Capital intensive

SIR – I read your article about London and Paris (“The rivals”, March 15th) while taking the Eurostar to St Pancras. On arrival in London I paid for my (costly) underground ticket and took my (delayed) ride to meet a friend (who shares his flat because he can't afford to live alone) for lunch (pasta at a price I dare not mention). Returning to Paris, I wondered if London's vibrancy and energy can be afforded only by Russia's nouveau riche.

Simon Majoulet
Paris

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The state of NATO

A ray of light in the dark defile

Mar 27th 2008 | BRUSSELS
From The Economist print edition

AFP

The Western alliance is in trouble in Afghanistan. But France is ready to help take on the Taliban, and others still want to join NATO

Get article background

ANOTHER fighting season beckons in Afghanistan, and the strain is beginning to tell. Many European countries are weary of the war, America is growing tired of reluctant allies and Afghans are becoming disenchanted. Still, NATO says it retains the initiative: the Taliban have been forced to abandon set-piece battles in favour of “asymmetric” suicide-bombs.

This is brave talk. Last year was the bloodiest yet, with more than 230 Western soldiers killed. Opium-poppy production is at a record high, financing the Taliban and corrupting the government in Kabul. The old truth of counter-insurgency still holds: armies can win every battle, yet lose the will to fight an intractable war.

Paddy Ashdown, the British politician and ex-commando who was nearly appointed as the United Nations' envoy to Kabul, makes the point by quoting “Arithmetic on the Frontier”, a poem by Rudyard Kipling describing the British empire's troubles fighting Afghan tribesmen armed with the *jezail*, a home-made musket:

> A scrimmage in a Border Station
> A canter down some dark defile
> Two thousand pounds of education
> Drops to a ten-rupee jezail.

In such a fight against a weaker but elusive enemy, says Kipling, “the odds are on the cheaper man”. Indeed, a recent report overseen by General James Jones, formerly NATO's supreme military commander, declares: “Make no mistake, NATO is not winning in Afghanistan.” Failure, the report says, will “put in grave jeopardy NATO's future as a credible, cohesive and relevant military alliance”.

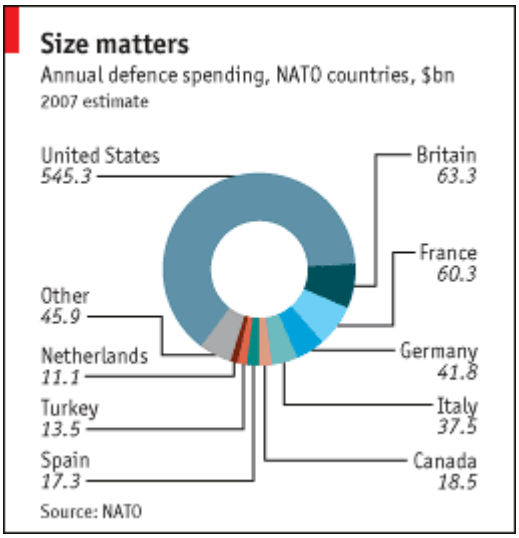
As NATO leaders gather in Bucharest next week, Robert Gates, America's defence secretary, has given warning that NATO could become a two-tier alliance with “some allies willing to fight and die to protect people's security, and others who are not”. The cost in blood and treasure is being borne mainly by the Americans, British, Canadians and Dutch. But the Dutch (together with the Italians and Germans) have wobbled, and the Canadians say they will remain only if another ally sends 1,000 troops to join them in

Kandahar. It is left to America, despite its commitments in Iraq, to put up most of the fighting power in Afghanistan, do most of the training of Afghan forces and provide the bulk of economic aid. It is now deploying some 3,000 more marines.

But out of the gloom comes some hope, in the dashing form of Nicolas Sarkozy. Despite the Bush administration's unpopularity in Europe, the French president has gone out of his way to befriend America and wants France to rejoin NATO's integrated military structure, from which de Gaulle withdrew in 1966. Even better, French forces hitherto deployed in Kabul seem ready to fight the Taliban. Mr Sarkozy is expected to announce in Bucharest the deployment of about 1,000 French soldiers alongside the Americans in eastern Afghanistan. This would release some American forces to move to Kandahar, keep the Canadians in Afghanistan and, perhaps, encourage others to do more.

A further measure of support may come from another unexpected quarter: Russia. For all the Kremlin's rage about NATO enlargement and American missile defences in Europe, President Vladimir Putin has been invited to Bucharest, where he may sign an agreement opening up air and land routes through Russia to supply NATO forces in Afghanistan.

If all this happens, NATO may not look quite so embattled. The arrival of American and French troops will, for a while at least, fill much of the shortfall in the forces requested by the local NATO commander. That said, Afghanistan is still short of soldiers (and of trainers embedded with Afghan troops). The surge in Iraq shows that numbers can make a difference.



Unequal allies

Plainly, America and Europe do not share the same commitment to Afghanistan; America considers itself to be at war. But they also have vastly different military means. Although Europe has a larger GDP than America, and more soldiers, its global military punch is puny. America spends roughly 4% of GDP on defence, while just five of the 24 European allies—Britain, France, Turkey, Greece and Bulgaria—meet NATO's minimum defence-spending target of 2% of GDP. America has designed its forces for expeditionary warfare, while most European armies are still configured to defend their own borders.

Within Europe, only Britain and France (both nuclear powers) have a tradition of wielding military force far afield. But these days both are struggling with overstretched equipment budgets. Whether because of national pride, incompatible priorities or the desire to prop up domestic industries, European defence spending is fragmented and duplicative. A study for the European Parliament in 2006 found that Europeans operate four models of tanks, compared with one in America; 16 kinds of armoured vehicles compared with three American ones; 11 types of frigates versus one in America. The NATO Response Force (NRF), a 25,000-strong package of land, sea and air contingents meant to be ready for action at five days' notice, was supposed to help transform static European armies into nimbler forces. But barely a year after the NRF was declared operational, NATO admits the Europeans are too stretched to meet its requirements.

With deployments in the Balkans, the Middle East and Africa, many European countries are close to the limit of what they can sustain in terms of overseas operations. A NATO source reckons that, short of all-out war, only 10,000 more troops can be squeezed out of Europe. Helicopters fit for war zones are scarce everywhere. Any hope of a big increase in military resources in Afghanistan must await a reduction of American forces in Iraq.

That said, American officials see France's return to the fold as a “gigantic opportunity”. NATO debates have long been a miserable mixture of French stubbornness and American frustration. America regarded the European Union's attempt to develop its own security and defence arm as wasteful, if not an attempt to split NATO. At the “Praline summit” in April 2003, at the height of the crisis over the Iraq war, France, Germany, Belgium and Luxembourg announced plans to create a separate EU operational headquarters in Tervuren, near Brussels. Britain and other Atlanticists blocked this, seeing it as a rival to NATO's vast Supreme Headquarters Allied Power Europe (SHAPE).

Now the mood has changed. Instead of getting a reflexive French *non*, American ideas tend to be greeted with *peut-être*. NATO meetings have been transformed from highly charged confrontations into meetings

that, in the words of one diplomat, “are as boring as Sunday mass”.

Still, joining NATO's integrated military structure is harder than leaving it. The previous French attempt to regain a place at the top table of military planning collapsed in 1996, partly because France bid too high for senior commands. This time there is, as yet, no horse-trading over NATO jobs. Instead Mr Sarkozy seeks a political trade-off: American support for expanding the EU's security role.

America, too, is undergoing what senior NATO officials call a “Copernican revolution”. It now appears convinced by Mr Sarkozy's assurance that a stronger EU defence policy would complement rather than supplant NATO. In two striking speeches in Paris and London earlier this year, Victoria Nuland, the American ambassador to NATO, argued that far from being a threat, the European Security and Defence Policy (ESDP) was an urgent necessity. “Europe needs, the United States needs, NATO needs, the democratic world needs—a stronger, more capable European capacity,” she said. “An ESDP with only soft power is not enough.” If Europeans spent more on their own defence, she added, their troops would be more useful when deployed with Americans.

The Franco-American courtship leaves Britain looking oddly out of place, not least because it is hobbled by the effort to ratify the EU's Lisbon treaty. Britain helped launch ESDP in 1998, but these days it is seen by the Eurocrats as the biggest obstacle to an autonomous EU defence policy. Partly at America's behest, Britain has denied the EU all but a small staff for “strategic” planning, and has squeezed the budget of the European Defence Agency, whose job is to rationalise European defence procurement. Now Britain is being encouraged by America to reverse course.

France would like to relaunch Europe's defence ambitions during its six-month presidency of the EU, which starts in July. This, in turn, could allow it to rejoin NATO's integrated military structure in time for NATO's 60th anniversary summit in 2009. Mr Sarkozy told Britain's Parliament this week that he wanted a “brotherhood” and hoped to abandon “theological” debates over defence. But, perhaps mindful of Britain's sensitivity over further integration, he avoided going into detail—and that is where the problems will arise. Time is running out. France has yet to present firm ideas, and its own defence review is not yet complete.

The lessons of Afghanistan

Realising the limits of America's military power, Pentagon officials nowadays say that the only thing worse than fighting a war with allies is fighting one without them. In Afghanistan, moreover, the problem is not just the strength of the Taliban but also the weakness of the Afghan state.

The 82nd Airborne division, which the Bush administration once said should not be wasted on escorting schoolchildren, is now building schools, refurbishing mosques and doing other “armed social work”. Commanders say what they need most urgently is more non-military muscle: agricultural experts, vets, even anthropologists. Mr Gates must be the only defence minister who lobbies for money for diplomats and aid workers.

Armies, aid donors and international agencies in Afghanistan often work at cross-purposes—for instance, building schools without enough teachers. One attempt to give direction to this dysfunctional reconstruction effort was the expected appointment of Lord Ashdown as the UN representative in Kabul. President Hamid Karzai, though, seemed to regard the former international supremo in Bosnia as the embodiment of a British viceroy, and blocked his nomination. Kai Eide, a respected but low-key Norwegian diplomat, has now been appointed.

Addressing a seminar at Policy Exchange, a London think-tank, Mr Ashdown summed up the problem thus: “We will not beat the Taliban. Those who will beat the Taliban are the Afghan people. If we do not win their support in the process we cannot win.”

The question of how best to meld military with civilian tools—“the comprehensive approach”, as many

call it—occupies the minds of strategists on both sides of the Atlantic. America and Britain are planning to build a “reserve” of civilian experts who can be sent out to help the soldiers.

In this light, the EU starts to look more attractive to America. The union already combines economic aid with anti-corruption training, police and *gendarmerie*-style missions, election monitoring and other tools useful for state-building. The EU is currently running or planning 12 ESDP operations around the world, most of them small police and rule-of-law missions. Its military ambitions, though, are growing. The EU runs the peacekeeping force in Bosnia and, after much trouble finding troops and equipment, is sending 3,700 soldiers to Chad to police the border with Darfur.

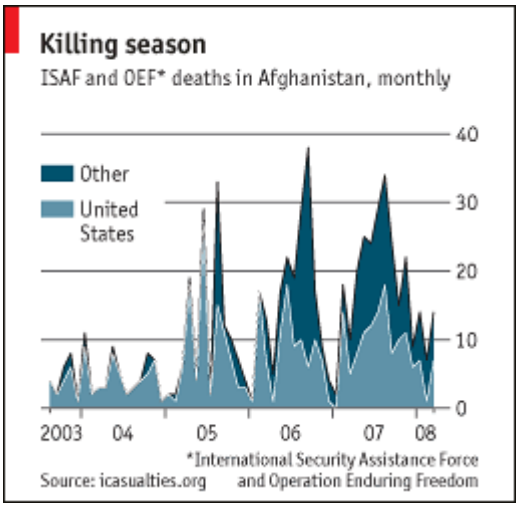
It has also set up a rotation of battlegroups—quick-reaction forces of about 1,500 men. Some contingents, such as the Nordic battlegroup, are a model of integration. They may be small, but many experts think the battlegroups are a more useful tool for crisis management than NATO's hard-punching response force.

Europe's awkward shape

America wants to tap into these resources, and seems ready to reconsider the taboo against a separate European operational headquarters. Ms Nuland has suggested creating a new headquarters to plan civil-military missions “as a NATO-EU family”. But she is careful to recognise that Europe “needs a place where it can act independently”. British officials speak of attaching such a body to SHAPE, giving it a NATO label. Some Americans propose trimming NATO's top-heavy structure and converting one of its commands—perhaps the headquarters at Brunssum in the Netherlands that oversees Afghanistan. EU officials retort that, if the aim is to harness non-military skills, it would be best to put the HQ in Brussels, next to EU institutions. Hervé Morin, the French defence minister, says Europe must have military clout, and not be “the civilian branch of NATO.”

NATO and the EU are, in many ways, two limbs of the same body. The clubs have 21 members in common, and are both headquartered in Brussels. The EU developed under NATO's protection and, since the fall of the Berlin Wall, the integration of former communist states has been a joint venture: membership of NATO has usually preceded joining the EU.

But like ill-fitting gears, the two bodies jar against each other. Fixing the relationship with America only highlights other blockages, such as the dispute over the divided island of Cyprus and Turkey's place in Europe. The Cypriot government tries to exclude Turkey from European defence bodies, while Turkey forbids NATO from meeting the EU if Cyprus is represented—as the EU usually insists.



The result is a dangerous absurdity. NATO and the EU speak only about Bosnia. NATO does not formally offer protection to the EU's police mission in Afghanistan, though many countries contribute to both. In Kosovo, too, there is no agreement between NATO peacekeepers and the incoming EU rule-of-law mission that is supposed to be taking over many of the UN's functions. The two sides co-operate informally, but key documents such as intelligence assessments can only be exchanged “under the table”. The election of a new president in Cyprus and the promise of renewed peace talks may lubricate contact between the bureaucracies. But for as long as Turkey's membership of the EU is in doubt, there will be more breakdowns.

The borders of Europe are causing difficulty elsewhere. Albania and Croatia seem certain to be invited to join NATO at Bucharest, but Greece is holding up Macedonia's membership because of a dispute over the country's name. America wants to go further and extend NATO's “membership action plan” (a promise of future membership) to Ukraine and Georgia. America and ex-communist countries see this as a means of stabilising emerging democracies. But Germany is leading the resistance, arguing that Ukrainian opinion is dangerously divided about NATO. Georgia's democratic credentials, moreover, have been questionable of late, while territorial disputes over Abkhazia and South Ossetia remain unresolved.

The Kremlin regards NATO's expansion as an affront, particularly when it encroaches on chunks of the former Soviet Union. Germany and several other European countries are wary of riling Russia at a time

when the presidency is being transferred from Mr Putin to Dmitry Medvedev (although the new man seems no less suspicious of NATO). The alliance says that outsiders have “no veto” on its decisions. That said, few members relish the idea of extending NATO's promise of mutual defence to countries that could drag them into direct confrontation with Russia.

Bad neighbours

Mr Putin will be an awkward guest at NATO's party. He has done much to stoke fears of a new cold war, especially since a speech at Munich last year accused America of having “overstepped its national borders in every way”. He has suppressed democracy at home and acted more aggressively abroad. Long-range bombers once again lurk close to NATOcountries, and the rust is being taken off other bits of Russia's military machine.

Russia has suspended the treaty limiting conventional forces in Europe. And it has threatened to target nuclear missiles at Poland and the Czech Republic if they agree to host America's missile defences. Russia has used oil and gas as a political weapon, periodically cutting off fuel supplies to neighbours. Increasingly it plays the spoiler on several issues of European interest, from the independence of Kosovo to sanctions against Iran.

Mr Putin has sent an abrasive nationalist, Dmitry Rogozin, as his ambassador to NATO. Mr Rogozin's office, in a faraway corner of the NATO compound, is decorated with a Soviet-era poster of Stalin leading the tanks of the victorious Red Army. He says Russia wants good relations, but NATO has abused its friendship. “We made peace with our neighbour,” he explains. “Then he says, ‘Is it all right if I use your garage?’ Then he says, ‘Is it a problem if my friend lives in your place?’ Then he says, ‘Do you mind if I sleep with your wife?’ When we protest, we are told we have no right of veto.”

Western diplomats argue that Russia's bullying tactics are backfiring, forcing Europeans into adopting a more assertive stand. Russia may still be a long way from posing a conventional military threat to NATO, although it does scare its immediate neighbours, such as the Baltic states. Even once-neutral Finland and Sweden are talking of joining NATO.

There will be much talk in Bucharest of NATO's need to reinvent itself by drawing up a new “strategic concept”. But despite NATO's troubles in Afghanistan, and even the possibility of failure, Russia's snarling may yet provide the clearest reason for the allies to stick together.

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Redesigning cities

Tackling the hydra

Mar 27th 2008 | LOS ANGELES
From The Economist print edition

Alamy

Its politicians are determined to turn Los Angeles into a normal city

THIS week J. H. Snyder, a developer, broke ground for a new building in North Hollywood—a district in the San Fernando Valley where people shop for car batteries. Antonio Villaraigosa, Los Angeles' mayor, turned up to declare it a model for future development. The event made the evening news. There can be few cities the size of Los Angeles where the prospect of a nine-storey office complex would cause such a fuss. But this one comes with a weighty expectation. At least some people are expected to get to it by public transport, or even on foot.

Los Angeles has long epitomised car-oriented sprawl. As early as 1946 the historian Carey McWilliams judged it “a collection of suburbs in search of a city”. So rare are neighbourhoods where basic needs can be met without hopping into a car or bus that estate agents tout the few where they can as “walkable”. Urban planners elsewhere routinely invoke the city as an example of what to avoid. Yet even as they struggle to avoid becoming like Los Angeles, cities such as Atlanta, Phoenix and San Jose are copying it by spreading out and, hydra-like, growing new centres.

The original metropolitan miscreant is now trying to reform itself so fundamentally that Joel Kotkin, an urbanist at Chapman University, compares it to rewriting a DNA code. Last summer the city council changed zoning rules to allow tiny apartments to be built in and around downtown Los Angeles. On March 19th it rejected a plan to put 5,600 homes on the city's northern frontier, signalling that the metropolis must now grow up, not out. From next month developers will be allowed to build blocks of flats up to 35% bigger than previously, so long as they include some cheap housing.

Other sprawling western cities are doing the same. Anaheim, in Orange county, changed its zoning rules in December to allow the construction of nearly 20,000 flats near a baseball stadium. Phoenix, Las Vegas and San Jose have built light-rail systems and have tried to concentrate housing and offices along their routes. Urban planners intone phrases like “transport-oriented development” and “elegant density”. Yet nowhere has the dream of a house and a sun-drenched garden been so central to a city's identity for so long as in Los Angeles. So nowhere does the change come as such a shock.

Not without a fight

Six miles (10km) west of North Hollywood, a four-storey building is rising next to a car-wash on Ventura Boulevard. When finished, it will contain about 130 apartments and an underground car park. To an outsider it seems innocuous. To local residents, schooled by almost a century of strict zoning to believe

that bedrooms must be separated from shops, it is anathema. Gerald Silver, a local homeowner, predicts epic traffic jams from this and similar developments nearby. He complains that, without consultation, the neighbourhood is being turned into a version of Manhattan. He is not alone.

“You're beginning to see a neighbourhood revolution,” says Zev Yaroslavsky, one of Los Angeles' shrewdest and most powerful politicians. He gives warning that outraged citizens may add an initiative to the ballot next year that would block dense housing projects, “smart” or not. Mr Yaroslavsky knows about the power of ballot initiatives. He sponsored one in 1986 that cut the size of most new office buildings in half, and another in 1998 that virtually halted subway construction.

Planners retort that Los Angeles will continue to grow, and it is better to build new apartments on run-down commercial streets than plonk them next to bungalows or bulldoze virgin land. They are particularly keen to put people next to express bus lines or subway stops. At present few use Los Angeles' skeletal rail system—259,000 journeys are made each day, compared with 1.2m bus journeys—and the network is growing painfully slowly. If the subway cannot reach the people, the thinking goes, the people must be brought to the subway.

This theory is the bedrock on which the new North Hollywood is being built. Near the office construction site a 14-storey block of flats (it seems enormous in the San Fernando Valley) has already appeared, and others will follow. The hope is that residents will both live and work there, or walk a few hundred yards to the local subway stop. But Cary Adams, a local resident, notes the developers are hedging their bets: two giant car parks are also scheduled for construction. This is, indeed, the genetic flaw in Los Angeles' new DNA.

A big reason Angelenos drive everywhere is that they can park everywhere, generally free. Businesses must provide parking spaces according to a strict schedule. This raises the cost of doing business and hugely lowers the cost of driving. Free parking is, as Donald Shoup of UCLA put it in a recent book, “a fertility drug for cars”.

Consider the roughly 29,000 people who live in Los Angeles' historic downtown. In the past few years a mixture of childless professionals and students have moved into new lofts. They have access to southern California's best public-transport network, and are the sort of people you would expect to take advantage of it. Yet last year a consortium of local property owners revealed that just 11% normally did so, while another 17% generally walked. Almost everybody else drove.

The politicians and planners are gambling that, by arranging Angelenos in a more conventional pattern, they can change their behaviour. Perhaps it will work. But if they are wrong, an already crowded city will simply gum up.

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The Democrats

Of snipers and sniping

Mar 27th 2008 | WASHINGTON, DC
From The Economist print edition

Barack Obama's pastor problem seems not to have punctured his campaign

Get article background

HILLARY CLINTON had a little piece of luck this week. On March 24th the Supreme Court refused to overturn a lower-court ruling that “Hillary: The Movie”, a hostile documentary filled with Michael Moore-onic innuendo, is a piece of electioneering. It therefore cannot be advertised close to the election without adding disclaimers and revealing who funded it.

Sadly for Mrs Clinton, since the film is aimed at a right-wing audience, stifling it does little to improve her chances in the remaining primaries. She leads polls by double digits in Pennsylvania, which votes on April 22nd. But Barack Obama's advantage in the delegate count and popular vote still looks insurmountable.

Mrs Clinton had been hoping that Michigan and Florida, two states whose Democratic primaries were disqualified for breaking party rules, might vote again. That now seems highly unlikely. The Michigan Senate adjourned last week without arranging for a fresh primary on June 3rd, as had been proposed. The deadline for a new vote is June 10th, which now seems impossible. The Florida Democratic Party, meanwhile, has given up its attempt to hold a do-over, citing lack of cash.

To make matters worse for Mrs Clinton, the bounce in her poll numbers following revelations about Mr Obama's spiritual mentor has been short-lived. She briefly overtook her rival (in national polls of Democrats) after footage appeared of Jeremiah Wright, Mr Obama's pastor for two decades, accusing the American government of concocting the AIDS virus to kill blacks and declaring “God damn America”. But new polls this week either put Mr Obama a wafer ahead or called the race a tie. The implosion that Mrs Clinton's supporters were hoping for has not happened.

On March 24th in Philadelphia Mrs Clinton outlined a plan to do something about America's mortgage problems. She promised hefty federal guarantees to help lenders refinance distressed mortgages. She said that the Federal Housing Administration should stand ready to buy, restructure and resell troubled loans. She repeated plans for a $30 billion emergency fund for cities and states to help homeowners, and for a controversial five-year freeze on subprime mortgage interest rates.

Her speech attracted little notice, however, and not just because it was clunky. (“Our housing crisis is at heart an American Dream crisis,” to take one example.) The airwaves buzzed instead with unwelcome discussion of Mrs Clinton's habit of making stuff up.

At issue was her claim that, as first lady, she landed in Bosnia under sniper fire and was obliged to run across the airfield with her head down. The *Washington Post* gave Mrs Clinton four Pinocchios for this, which is like three Michelin stars, only for lying. CBS News aired footage of the trip in question, which showed Mrs Clinton chatting calmly with a young girl and dignitaries at a conspicuously sniper-free airport in Tuzla. Parody footage, showing Mrs Clinton calm as heads fly off around her, quickly appeared on the internet.

Mrs Clinton finally admitted that she had mis-spoken, blaming lack of sleep. Meanwhile, her campaign rolled up its sleeves and circulated an e-mail revealing that Mr Obama also tells fibs. Leading the list was that he has often referred to himself as a former law professor at the University of Chicago, when in fact he was only a senior lecturer. So far, the Obamaphile media have cravenly neglected to give this the space it clearly deserves.

Given the tottering economy, it ought to be impossible for the incumbent party to retain the White House this year. But John McCain, the Republican nominee apparent, now enjoys a 67% approval rating, according to Gallup, against Mr Obama's 62% and Mrs Clinton's 53%. And another Gallup poll suggests

that the Democratic split may be truly dangerous especially if, as still seems highly likely, Mr Obama gets the nomination. Some 28% of Mrs Clinton's supporters say they would rather vote for Mr McCain than for Mr Obama (only 19% of his fans prefer the Republican to Mrs Clinton). That's something to make a superdelegate think.

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On the campaign trail

Primary colour

Mar 27th 2008
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To err is human
“Occasionally, I am a human being like everyone else.”
Hillary Clinton on why she “mis-spoke” by claiming to have landed in Tuzla in Bosnia under sniper fire when she hadn't. New York Times*, March 26th*

Voice of America (1)
“So?”
Dick Cheney's response on being told that two-thirds of Americans think the Iraq war is not worth fighting. Good Morning America, ABC*, March 19th*

Voice of America (2)
“We're succeeding. I don't care what anybody says. I've seen the facts on the ground.”
John McCain continues to defend his determination to stay in Iraq. Associated Press, March 25th

High treason (1)
“Mr Richardson's endorsement came right around the anniversary of the day when Judas sold out for 30 pieces of silver, so I think the timing is appropriate, if ironic.”
James Carville, a Clinton supporter and adviser, regards Bill Richardson's support of Barack Obama as a betrayal of biblical proportions. New York Times*, March 22nd*

High treason (2)
“I am very loyal to the Clintons. I served under President Clinton... But you know... it shouldn't just be Bush, Clinton, Bush, Clinton.”
Bill Richardson responds. Fox News, March 23rd

Pouring on oil
“To equate what I said with what this racist bigot has said from the pulpit is unbelievable.”
Geraldine Ferraro, who resigned from the Clinton campaign after her comments about Mr Obama were criticised, is feeling aggrieved. Daily Breeze*, March 19th*

Me too
“This is the first time in decades that Puerto Rico will be participating in an event of this magnitude.”
Roberto Prats, Puerto Rico's Democratic chairman, comments on the decision to move the territory's primary (scheduled for June 7th thanks to a typo) to June 1st. Associated Press, March 24th

Blessed
“John McCain has been a good friend for over 30 years...I believe John's record and experience have prepared him well to be our next president.”
Nancy Reagan endorses John McCain. Associated Press, March 25th

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Schools and testing

Left behind

Mar 27th 2008 | CHICAGO
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AP

A test of something, but exactly what?

The missing debate over schools and accountability

ON MARCH 18th Margaret Spellings, the secretary of education, announced a pilot reform to the No Child Left Behind Act (NCLB), George Bush's education law, which was passed in 2002. Up to ten states, she said, would be allowed to target their resources at the most severely struggling schools, rather than at the vast number needing improvement. The change drew a predictable mix of praise and censure. Above all, though, it was a reminder of utter inaction elsewhere.

Congress, which was supposed to re-authorise the law last year, has made little progress. On the campaign trail, concerns over Iraq and the economy have made education a minor issue. Contrary to appearances, the law's main tenets are unlikely to be abandoned completely. But for the Democratic candidates in particular, a proper debate on NCLB is to be avoided like political quicksand.

Most politicians agree that the law has the right goals—to raise educational standards and hold schools accountable for meeting them. NCLB requires states to test pupils on maths and reading from third to eighth grade (that is, from the ages of eight to 13), and once in high school. Some science testing is being added. Schools that do not make “adequate yearly progress” towards meeting state standards face sanctions. Pupils in failing schools can supposedly transfer to a better one or get tutoring.

Most also agree that NCLB has big flaws that must be fixed. Few pupils in bad schools actually transfer—less than 1% of those eligible did so in the 2003-04 school year. Teachers' unions say the tests are focused too narrowly on maths and reading, fail to measure progress over time and encourage “teaching to the test”. They also complain that the law lacks proper funding. The Thomas B. Fordham Foundation, a conservative policy group, has exposed wide gaps in state standards. Test-data reflect this. In Mississippi 90% of fourth-graders were labelled “proficient” or better in the state reading test in 2006-07. Only 19% reached that level in a national test.

John McCain, the Republican presidential nominee, offers NCLB tepid support but fails to elaborate. At Democratic rallies, NCLB is little more than a whipping-boy. Hillary Clinton proclaims that she will “end the unfunded mandate known as No Child Left Behind”. But though she and Barack Obama deride NCLB publicly, each endorses the idea of accountability. They favour using more sophisticated “assessments” in place of tests, want to value a broader range of skills, punish schools less and support them more. How these ideas would be implemented remains unclear.

Not surprisingly, more controversial proposals can be found among those not running for president. Chester Finn of Fordham thinks the federal government needs greater power to set standards, while

states should have more leeway in meeting them. A bipartisan commission on NCLB has issued a slew of proposals. Particularly contentious is a plan to use pupils' test scores to help identify ineffective teachers as in need of retraining.

Of course, standards alone do not improve education. Both Mrs Clinton and Mr Obama propose a host of new programmes for schools, described on their websites if rarely on campaign. But accountability is likely to remain a big part of school reform. Last April a group of philanthropists announced a $60m effort to make education the top domestic issue of 2008. So far, it looks like money ill spent.

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The farm bill

Long time in germination

Mar 27th 2008 | WASHINGTON, DC
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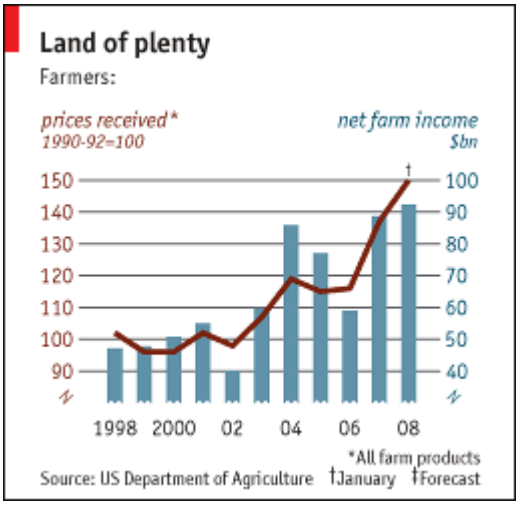
The five-yearly row over agriculture is deadlocked, and time is running out



OF THE recent battles between the Democrats in Congress and George Bush, none is as counter-intuitive as that over the farm bill, America's twice-a-decade review of agricultural policy. Mr Bush is insisting on reforming subsidy payments that disproportionately benefit a small cadre of big agribusinesses in mostly Republican states. The Democrats, who ran on a platform of good government in 2006, have so far opted to keep the largesse flowing. With the legislative clock ticking, the Democrats are suffering for their lack of backbone.

The current policy is shameless. Farmers of a few select crops such as wheat or maize can avoid almost all risk using the government's overlapping system of subsidised insurance, loans and payments. The recipients are hardly the most deserving: farm households make a third more than others, and the richest of them, which get most of the subsidies, bring in three times what the average non-farm household does. Instead of saving the family farm, the policy is destroying it, encouraging agricultural land consolidation and raising barriers to entry. And then there are the deleterious effects America's price-distorting payments have on foreign farmers and so on trade negotiations.

With farm incomes high and commodity prices at record peaks, this season looked ripe for reform. Instead, the House passed a bill that failed to cut subsidies significantly and bought off potential opposition from urban Democrats with spending on a range of social and environmental programmes. Mr Bush has been trying to put his foot down.

The palliatives included in earlier versions could still get slashed in conference negotiations between the House and Senate. California's politicians want to protect some $2 billion over five years for “specialty crops”—fruits, nuts and certain vegetables—that are largely left out of farm-assistance programmes now, even though the state's fruit and nut farmers are doing fine already. Max Baucus, a powerful senator from Montana, wants to keep a $5 billion permanent disaster fund, a proposal that would enhance the incentive farmers have to plant on unfavourable land.

However, other programmes at risk are far dearer to the Democrats: they want to increase the scale of the food-stamp programme, which enables poor Americans to buy basic staples, and spend more on under-funded rural conservation projects.

With luck, this might convince the Democrats to cut into the worst subsidies—the direct payments that go to landowners regardless of how much they produce. But the Democrats have not yet shown much willingness to upset farmers by pushing truly significant subsidy reform, even though programmes they prefer are fighting for cash.

They will have to make up their minds on the farm bill by April 18th. After that, the White House says, current policy will need to be extended another full year so that farmers can plan for their harvests.

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Wolves

Fair game now

Mar 27th 2008 | SHERIDAN, WYOMING
From The Economist print edition

A de-endangered species can now legally be hunted

ON MARCH 28th Ed Bangs will open the champagne. Mr Bangs is the government's chief wolf recovery co-ordinator, and on that day the grey wolf of the northern Rocky Mountains will lose its federal protection. The Fish and Wildlife Service (USFWS) says the population has reached sustainable levels. Mr Bangs has worked 20 years to see this moment.

Wolves were once found almost everywhere in the West, but settlers and ranchers made short work of them. The last one disappeared from the Yellowstone region in 1926. By 1973, when the Endangered Species Act became law, only a few wolves remained in northern Michigan and Minnesota.

After long and stormy debate, the federal government reintroduced wolves to Yellowstone and parts of Idaho in 1995. The greater Yellowstone area, encompassing parts of Wyoming, Idaho and Montana, now has a population of 1,500 wolves. These three states will now each manage their own wolves. The USFWS will monitor their populations for the next five years. It has set a minimum of 300 wolves and 30 breeding pairs, split equally among the three states.

Idaho, Montana and Wyoming plan to allow the animal to be hunted as trophy game. The delisting also allows ranchers to shoot wolves that prey on their stock or threaten pets. Conservation and animal-rights groups plan to sue, fearing that wolves will die in huge numbers. Mr Bangs thinks otherwise. “Those states have done a superb job of managing their deer, elk and bear. I expect they'll do the same for wolves. If they don't, we'll take it back.”

The wolf has been a pain to some stockmen, but has hardly put ranchers out of business. The Defenders of Wildlife, a wolfish outfit, says coyotes kill 20 times more cattle than wolves do. It also says that wolves are responsible, in a typical year, for less than 2.5% of sheep deaths.

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Lexington

The joys of parenthood

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Illustration by Kevin Kallaugher

Why conservatives are happier than liberals

IN EVERY nursery there is one child known as the Biter. Who suffers the most from this child's delinquency? Not his classmates, whose bite marks quickly heal. It is the Biter's mum and dad, who endure sideways glances from other parents when dropping him off in the morning and fret constantly that their own poor parenting has produced a monster.

Arthur Brooks was once the father of a Biter. For a year, his son gnawed on boys, girls, siblings, friends and so many guests that he had to be removed from his own fourth birthday party. Mr Brooks worried, argued with his wife, lost sleep and sought professional help. So he speaks from experience when he says that having children does not make you happy.

Happily for the reader, his book, “Gross National Happiness”, is not a memoir. It is a subtle and engaging distillation of oceans of data. When researchers ask parents what they enjoy, it turns out that they prefer almost anything to looking after their children. Eating, shopping, exercising, cooking, praying and watching television were all rated more pleasurable than watching the brats, even if they don't bite. As Mr Brooks puts it: “There are many things in a parent's life that bring great joy. For example, spending time away from [one's] children.”

Despite this, American parents are much more likely to be happy than non-parents. This is for two reasons, argues Mr Brooks, an economist at Syracuse University. Even if children are irksome now, they lend meaning to life in the long term. And the kind of people who are happy are also more likely to have children. Which leads on to Mr Brooks's most controversial finding: in America, conservatives are happier than liberals.

Several books have been written about happiness in recent years. Some have tried to discern which nations are the happiest. Many more purport to offer a foolproof guide to self-fulfilment. Others wonder if the obsessive pursuit of happiness is itself making people miserable. Mr Brooks offers something different. He writes only about Americans, thus avoiding the pitfalls of trying to figure out, for example, whether Japanese people mean the same thing as Danes when they say they are happy. And he writes intriguingly about the politics of happiness.

In 2004 Americans who called themselves “conservative” or “very conservative” were nearly twice as

likely to tell pollsters they were “very happy” as those who considered themselves “liberal” or “very liberal” (44% versus 25%). One might think this was because liberals were made wretched by George Bush. But the data show that American conservatives have been consistently happier than liberals for at least 35 years.

This is not because they are richer; they are not. Mr Brooks thinks three factors are important. Conservatives are twice as likely as liberals to be married and twice as likely to attend church every week. Married, religious people are more likely than secular singles to be happy. They are also more likely to have children, which makes Mr Brooks confident that the next generation will be at least as happy as the current one.

When religious and political differences are combined, the results are striking. Secular liberals are as likely to say they are “not too happy” as to say they are very happy (22% to 22%). Religious conservatives are ten times more likely to report being very happy than not too happy (50% to 5%). Religious liberals are about as happy as secular conservatives.

Why should this be so? Mr Brooks proposes that whatever their respective merits, the conservative world view is more conducive to happiness than the liberal one (in the American sense of both words). American conservatives tend to believe that if you work hard and play by the rules, you can succeed. This makes them more optimistic than liberals, more likely to feel in control of their lives and therefore happier. American liberals, at their most pessimistic, stress the injustice of the economic system, the crushing impersonal forces that keep the little guy down and what David Mamet, a playwright, recently summed up as the belief that “everything is always wrong”. Emphasising victimhood was noble during the 1950s and 1960s, says Mr Brooks. By overturning Jim Crow laws, liberals gave the victims of foul injustice greater control over their lives. But in as much as the American left is now a coalition of groups that define themselves as the victims of social and economic forces, and in as much as its leaders encourage people to feel helpless and aggrieved, he thinks they make America a glummer place.

Extreme happiness

So much for right versus left. Mr Brooks also finds that extremists of both sides are happier than moderates. Some 35% of those who call themselves “extremely liberal” say they are very happy, against only 22% of ordinary liberals. For conservatives, the gap is smaller: 48% to 43%. Extremists are happy, Mr Brooks reckons, because they are certain they are right. Alas, this often leads them to conclude that the other side is not merely wrong, but evil. Some two-thirds of America's far left and half of the far right say they dislike not only the other side's ideas, but also the people who hold them.

Oddly for a political writer, Mr Brooks thinks his country is doing pretty well. Americans are mostly free to pursue happiness however they choose with little interference from the state. Well-meaning coercion is less common than in Europe, though it can still backfire spectacularly. He cites this example: a county in Virginia recently banned giving food to the homeless unless it was prepared in a county-approved kitchen, to prevent food poisoning. Churches stopped ladling soup, and more homeless people were forced to scavenge in skips. This hurt not only the hungry, but also the volunteers who might have found satisfaction in helping them. The surest way to buy happiness, argues Mr Brooks, is to give some of your time and money away.

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Argentina

The Kirchners v the farmers

Mar 27th 2008 | BUENOS AIRES
From The Economist print edition

AFP

The countryside's beef about export taxes becomes the new government's first political test

Get article background

CLANK, clunk, clank, clunk. The sound of a *cacerolazo*—Argentina's signature style of protest, in which people pour into the streets banging pots and pans—had not been heard in Buenos Aires since the depths of the country's economic collapse in 2002. Yet on March 25th, after five years of breakneck economic growth that has left the slump a distant memory, the steady clanging of kitchenware returned to Argentina's main cities.

The target was the country's president, Cristina Fernández de Kirchner. Barely three months after taking office, she has provoked a conflict with Argentina's farmers which has blossomed into her government's first real domestic political test. Ms Fernández was elected last year only after her husband, Néstor Kirchner, chose not to stand for a second term. To support her campaign, Mr Kirchner ramped up spending on pensions and public works. The new government is seeking to restore the fiscal surplus to rein in the resulting inflation. So it has raised the already steep export taxes it levies on most agricultural commodities. The rate on soyabeans, to take the most extreme example, has been hoisted to 40%, up from 27% last year.

Argentina's farmers have hit back with a campaign of strikes and roadblocks across the country. They launched similar protests under Mr Kirchner. But this time they seem more determined. They have vowed to continue until the taxes are cut. Some foodstuffs are running short: the meat racks in one supermarket in Palermo, a fashionable neighbourhood of Buenos Aires, are all but bare.

The government has refused to negotiate while the strike continues. “I won't give in to extortion,” Ms Fernández said in a speech this week. Comparing the farmers' protest to those during the economic collapse, she added: “In 2001, there were roadblocks of misery. This last weekend we saw the other side, roadblocks of plenty.” That prompted some 10,000 pot-banging protestors to descend on the Plaza de Mayo, the square in front of the presidential palace, with smaller demonstrations popping up across the country.

Resolving the dispute will not be easy. Farmers' leaders say they cannot afford to back down. Because the government charges income tax on top of the export levies, around 44% of the revenues from soyabean sales will now wind up in the state's coffers. Planting, harvest, transport and the cost of land eat up another 50%, leaving just six cents on the dollar in profits, farmers say. For the many smaller-scale farmers the tax rise means a big drop in their income; if crops fail, some would go out of business.

Moreover, because of high soyabean prices, vast tracts of land in the country's north-east that were traditionally unused have been brought into cultivation in recent years. The tax rise would lead to some 2m hectares (5m acres) being left idle next year, reckons Pablo Adreani, an agricultural consultant. Some producers are already cutting back: Alexis de Noailles, who runs Rincón de Chillar, a large farming company, says the new policy caused him to stop work on a new milk factory, costing ten families their jobs.

But it is hard for Ms Fernández to climb down. Her Peronist movement has long demonised the farming industry as a relic of Argentina's oligarchical past. She is relying on fiscal policy to restrain inflation: her central banker, Martín Redrado, says that monetary policy has little impact in Argentina, since bank credit has yet to rebound much since disappearing in 2001.

That points to stalemate. Ms Fernández has unleashed a more formidable opposition than her husband ever faced: an impromptu alliance between the farmers and the urban middle class. Some previously loyal provincial officials are rebelling: the governor of Córdoba province urged the president to start talks. Yet the Kirchners' political grip on the populous poorer suburbs of Buenos Aires remains as strong as ever. Sympathy for the farmers could quickly fray if the conflict drags on. Argentines lead the world in beef consumption, and they would not appreciate a long interruption of their traditional *asado* barbecues.

Farmers insist that the government has left them with no choice. Mr de Noailles predicts that the farmers are capable of leaving the cities without meat for up to two months. “It's tough to say how people will react,” he says. “Will they say it's our fault or the government's? But you can't ruin people's lives like this. If they don't back down, Buenos Aires will starve.”

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Canada

Angry Anglicans

Mar 27th 2008 | VANCOUVER
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The schism over gays

Alamy

Less peaceful than it looks

SINCE Canada is a generally liberal-minded place, it is no surprise that Anglicans there are among the prime advocates of blessing homosexual unions. What was less predictable was that the conservative backlash against this attitude should be so strong. The upshot is that the country's Anglican church is breaking apart, mirroring the strife in the worldwide Anglican communion.

In 2002 the diocese of New Westminster (which includes Vancouver) became the first in the world to authorise the blessing of same-sex partnerships. Conservatives object that homosexuality is harshly condemned in several verses in the Bible. Liberals call this scriptural fundamentalism and note that being gay is not a matter of choice. In an uneasy compromise, the 1998 Lambeth Conference—a once-in-a-decade gathering of Anglican bishops—declared that homosexual acts were incompatible with scripture but that gays were loved by God. In an effort to preserve unity, the communion has called for a moratorium on blessing same-sex unions.

Last year Canada's general synod resolved that same-sex blessings are not in conflict with core doctrine, and rejected a moratorium. This was the last straw for many conservatives. In February, seven parishes across Canada, including the largest (St John's Shaughnessy in Vancouver), opted out of the national church. They joined a conservative splinter group, the Anglican Network in Canada, set up by eight other parishes which broke away earlier. All have now placed themselves under the authority of Gregory Venables, the conservative archbishop of South America's southern cone. Some 60 parishes of the Episcopal Church in the United States made similar moves last year.

A hitherto polite dispute is acquiring a sharper edge. In New Westminster, a dozen conservative clergy have been denounced by their opponents as “schismatics”. Their bishop has warned them that they have no right to transfer church assets to another jurisdiction; he also said that the dissenters' pastoral licences may be cancelled. St John's Shaughnessy's alone has assets worth some C$12m ($12m). Elsewhere in Canada, the property issue has already entered the civil courts. Conservatives are calling their liberal bishops unfaithful to Christian teaching and beholden to secularism.

Only 20% of Canadians are regular churchgoers. The country legalised homosexual unions in 2005. But that does not deter the conservatives. The breach is widening. In April the dissident network will hold its first conference in Vancouver. In July, a new Lambeth Conference, to be held at Canterbury, in Britain, represents a last chance to keep the worldwide communion together. But some conservative bishops may stay away, despite the strenuous efforts that have been made to accommodate their concerns.

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The Caribbean

The Canadian connection

Mar 27th 2008 | PORT OF SPAIN
From The Economist print edition

Providing banking, business and policemen

THE Caribbean island of Antigua is an odd place to find a Mountie, with not a horse or a snowflake in sight. But three former officers from the Royal Canadian Mounted Police this month began a two-year stint reforming the island's chaotic constabulary. They are working with the island's new police commissioner, Gary Nelson, who comes hotfoot from 35 years with Ottawa's city police.

These cops are only one sign of Canada's growing involvement in the Caribbean. On March 26th the shareholders of the largest regionally owned bank, Trinidad's RBTT, voted to accept a takeover by the Royal Bank of Canada. Canadians now control the English-speaking Caribbean's three largest banks, with $42 billion in assets, four times those commanded by its 40-odd remaining locally owned banks.

These links draw on a long history. The Bank of Nova Scotia opened a Jamaican branch in 1889. RBTT itself has distant roots in a Royal Bank branch which opened in Port of Spain in 1910. In Victorian days, ships from Canada's Maritime provinces traded Caribbean sugar and molasses for timber, salt cod and potatoes. At the Versailles peace conference in 1919, Canada's prime minister Sir Robert Borden, chatted to Britain's David Lloyd George about taking over the West Indian colonies. In the 1880s, and again in the 1950s, politicians from Barbados and Jamaica dreamed of joining Canada as a tropical province.

Today, Canadian firms make chemicals in Trinidad and drill for natural gas offshore, mine nickel in Cuba and gold in Suriname, seek oil off Guyana and run cable television in the Bahamas and Jamaica. A tax treaty with Canada underpins offshore finance in Barbados. Several thousand migrants move north each year, mainly to Toronto.

Many see Canada as less threatening than Britain, the former colonial power, or the United States. But not everyone: Antigua's former prime minister, Lester Bird, who faces corruption charges from his time in office, has no love for the Mounties. He views their arrival with “utter abhorrence”.

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Brazil

Feverish in Rio

Mar 27th 2008 | RIO DE JANEIRO
From The Economist print edition

AP

A failure of prevention, followed by panic

The dengue mosquito exposes public-health laxity

THE “hydration tents” for rousing the stricken have been pitched. Hundreds of doctors, nurses and health inspectors have been deployed. The armed forces are on the way. To anyone arriving in Rio de Janeiro, the hum in the streets might seem impressive. To *cariocas*, as the city's natives are called, the scene is sadly familiar. Sure as summer, mosquito-borne dengue fever is back. But this time the outbreak is Brazil's worst-ever, according to some public-health specialists.

Dengue causes high fever and excruciating aches (it's known as break-bone fever) that can send patients to bed for days. It can also be fatal. Officials point out that far fewer Brazilians have fallen ill with dengue this year than last. But while the infection rate is down 40% nationwide this year, in Rio de Janeiro the disease is out of control. Some 27,000 people in the city of Rio have been stricken so far, double last year's toll. Hundreds have succumbed to a deadly haemorrhagic variety: 49 people have died, more than half the death toll from the disease for the whole of 2002, Rio's deadliest year on record. As summer starts to turn to rainy, warm, mosquito-friendly South American autumn, the epidemic is far from over.

Before 1980, dengue was fairly rare in Latin America, and the lethal haemorrhagic strain was almost unheard of. Public-health workers armed with pesticides had all but wiped out *aedes aegypti*, the mosquito which carries both dengue and yellow fever. But victory was declared prematurely: commitment and budgets dried up, while cities continued to grow. The felling of Brazil's Atlantic forest freed a host of bugs, some of which found new homes in ill-drained, jerry-built urban *favelas* (slums). Old tyres and neglected swimming pools, septic tanks or potted plants—the mosquito has many incubators.

With every fresh outbreak, the virus grows stronger. By 2003, 24 countries in Latin America and the Caribbean were reporting haemorrhagic dengue, according to the Centres for Disease Control, an American government agency. Most health authorities despair of eradicating *aedes agypti*. A vaccine is said to be still five to ten years away.

Brazil accounts for 70% of cases in the region. Pest control is especially difficult in crime-ridden Rio suburbs, where residents are loth to open their doors to strangers. Half the new cases of dengue are in the city's west end, where *favela* drug lords often bar anyone in uniform, whether police or mosquito killers. City officials report that neighbourhood dengue patrols were turned away, or found nobody in, at four out of ten city homes.

A year ago, experts from the health minister down said that dengue risked getting out of control. They

worried about the proliferation of mosquitoes, and the return after a long absence of type-2 dengue, a strain to which many younger Brazilians have no immunity. But officials have quibbled over whether the dengue mosquito is “municipal, state, or federal”, as a bitter joke has it. Only on March 24th, with the body count rising and emergency rooms strewn like flophouses with prostrate patients, did national and local officials convene a “crisis cabinet”. Sadly, inflamed rhetoric and listless bureaucracy are not new symptoms for Brazil's body politic. It will take more to crush the mosquito.

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Salsa dancing

Selling rhythm to the world

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Cashing in on a global dance craze

ASKED to mention exports to Europe or the United States from Latin America and the Caribbean, many people might mention coffee, bananas or, less happily, cocaine. Now add to that list a hugely successful cultural export: salsa has become the biggest international dance craze since the advent of rock'n'roll in the 1950s, and dwarfs even the popularity of tango during the 1920s. It has spawned a new niche for the tourist industry, as stiff-hipped northerners fly south to learn to loosen up.

Salsa has also helped to fuel a revival of interest in tango. But whilst tango, with its slow, strenuous movements and melancholy music, remains a minority interest, salsa's worldwide appeal shows no sign of weakening. Almost every city in Europe now has a cluster of clubs offering classes at all levels, with Britain, Germany and Scandinavia especially well-served. Salsa is also a passion in Japan, and is taking hold in India and China.

Salsa's history is much disputed. As the name implies, it is a “sauce” of several ingredients: Cuban *son* and mambo figure, but so do moves inherited from American jitterbug and jive. A style broadly identifiable as salsa (though the name came later) evolved among Puerto Rican and Cuban exiles in the United States in the late 1960s, and then moved back to Latin America.

Its appeal spread outside the region in the 1990s, for reasons that are not hard to divine. A fast, intimate couple dance, it allows much contact between partners, generating sexual frisson. Salsa music is intricately textured, offering rich melodies and virtuoso musicianship at a time when its main European consumers, the over-30s, see mainstream pop music as bland.

Cuba, with its hunger for tourist dollars, has been quick to see salsa's earning potential. “Lady Salsa”, a musical featuring spectacular dance routines dramatising a government-sanctioned potted history of Cuba, has toured the world since 2000. British, European and Japanese tour operators now offer salsa holidays in Havana, including two hours of dance tuition daily with professional dancers and nightly visits to clubs. It is also easy to arrange private lessons in a cramped apartment; though technically illegal, these will earn the instructor a month's white-collar salary in two or three hours.

Cuban salsa is vigorous and athletic, with much clockwise circling, its African roots clearly evident. Puerto Ricans prefer the “New York style” developed in the 1980s. This involves straighter movements, the dancers moving to and fro as if on tracks. Many Americans go to Puerto Rico for salsa lessons; a few European operators now market it too.

Colombia and Venezuela share an elegantly restrained style, with much back-stepping, smaller hand-movements and little use of the elaborate, arm-tangling moves beloved of Cuban dancers. Despite a profusion of world-class bands and venues, neither country has yet attracted many salsa tourists. Cali, Colombia's third city, boasts perhaps the densest concentration of dance clubs in Latin America. Residents of Juanchito, a Cali suburb, are said to learn salsa as soon as they can walk. At weekends the clubs hold contests where dancers as young as six don glittering tuxedos, or high heels and lipgloss, to compete in frenetic dance routines.

The Dominican Republic is an anomaly. It has produced several top bands but salsa is barely danced except by tourists. The locals prefer *merengue*, at carwashes equipped with bars. At weekends the forecourt is filled with tables and a live band. Salsa may come, but for now if you want to spend Saturday night at the carwash you'll need to dance *merengue*.

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China and Tibet

Welcome to the Olympics

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Resenting criticism of its handling of unrest in Tibet, China wages a gruesome propaganda offensive

AFP

IT HAS become a public-relations quagmire and China is struggling to escape. Senior Western diplomats have been summoned to the Chinese foreign ministry to watch gory videos of atrocities allegedly committed by Tibetan rioters. Select foreign journalists have been invited to Tibet to see the damage. Officials are suddenly less certain that this summer's Olympic games in Beijing will be the diplomatic triumph they had craved.

On March 25th, a fortnight after the start of the biggest wave of anti-Chinese unrest in Tibet for nearly 50 years, France's president, Nicolas Sarkozy, said he could not rule out boycotting the opening ceremony of the games on August 8th because of the crackdown. Only a few hours earlier Li Zhanjun, who speaks for Beijing's Olympic organisers, had been boasting about how many foreign leaders and members of royalty would attend: over 100, he said, compared with 60-odd at the 2004 games in Athens.

Thousands of troops are keeping a tight grip on Lhasa, which was swept by ethnic violence by Tibetans against Han Chinese on March 14th and 15th. But other areas of Tibet and ethnic-Tibetan regions close to it remain volatile. On March 24th police opened fire during a clash between Tibetan protesters and police in Garze prefecture of Sichuan province, which adjoins Tibet. China said one policeman was killed and several others injured by protesters armed with knives and stones. It said the police fired warning shots to disperse them. Tibetan activists in India said the shooting itself killed one person and critically wounded another. Reuters reported that hundreds of people joined a sit-in protest in Xinghai county in Qinghai province on March 25th after anti-riot police stopped them from staging a march.

The unrest is being fuelled by the Olympics. Many Tibetans see the games as a chance to highlight their grievances and put pressure on the authorities to relax religious and political controls. As China pours more security forces into the region, foreign human-rights activists and Tibetans living outside China are stepping up their protests. An international relay of the Olympic flame provides a ready target. A flame-lighting ceremony in Olympia, Greece, on March 24th was briefly disrupted by a protest by three members of a French press-freedom lobby, Reporters Without Borders. A Tibetan woman lay on the ground blocking the torch-relay route.

China's main worry is about torch-carrying events in Tibet and neighbouring areas in May and June. Mr Li, the spokesman, says foreign journalists will be invited to cover these and that plans remain unchanged despite the recent unrest. He says there is “no market” in China for calls to disrupt them.

Few, however, expect a rapid easing of the tight security measures in Lhasa. The authorities say that more than 280 people in the city have handed themselves over to the police since the rioting there and another 380 in Aba prefecture in Sichuan, the scene of several days of unrest after the violence in Lhasa. But the police are still hunting for suspects.

It is highly unlikely that Tibet will be open to more than occasional, tightly controlled, groups of foreign correspondents in the months ahead. On March 26th a group of two dozen reporters (selected by officials) was allowed to visit Lhasa, the first such tour since the rioting. They were closely shepherded at all times. Even so, their visit to the Jokhang temple, the city's holiest shrine, was disrupted by a group of monks screaming that there was no religious freedom in Tibet and that the Dalai Lama, the exiled spiritual leader, was not to blame for the recent violence. Despite promises to make China more open to journalists in the build-up to the games, the authorities are turning foreign reporters away from other protest-hit areas.

China's own press has accused foreign journalists of distorting events in Tibet by overstating the vehemence of the crackdown and failing to highlight what was indeed racial violence unleashed by Tibetans in Lhasa. They have heaped abuse on the “Dalai Lama clique” for allegedly organising the unrest, but have played down the Dalai Lama's threats to resign should Tibetans continue to use violence.

Western diplomats say that, since the Lhasa riots, foreign ambassadors based in Beijing have been called by China's foreign ministry at all hours to attend briefings intended to convey the brutality of rioters. One group was made to watch a lengthy video, which showed the leg of a policeman with a large piece of flesh gouged out of it and the charred remains of five people, including an eight-month-old boy, killed when a motorcycle shop was set on fire. Some foreign journalists in Beijing were invited to a press conference by the Ministry of Public Security, at which a spokeswoman's voice faltered with apparent emotion as she described these deaths. She left without taking questions.

There is little sign that Chinese officials are considering any imaginative solutions to Tibet's malaise. In a telephone conversation with President George Bush on March 26th, China's president, Hu Jintao, said China was willing to “continue contacts” with the Dalai Lama. But he repeated the usual precondition, that he forgoes demands for independence (he has, in fact) and added another, that he stops “activities to fan and mastermind violent activities” and efforts to “sabotage” the Olympics. The Dalai Lama has denied any involvement. The last round of informal contacts between his representatives and China was held last July.

Meng Jianzhu, China's most senior police official, also toured Lhasa on March 23rd and 24th. His words were not encouraging. Monasteries, he said, should step up “patriotic education”—ie, a much resented government-led campaign that requires monks to state their rejection of the Dalai Lama, who is hugely revered in Tibet.

Chinese officials have also been angered by Britain's prime minister, Gordon Brown. On March 19th, after the rioting in Lhasa, he announced he would meet the Dalai Lama when he tours Britain in May. China believes that the Dalai Lama's meetings with Western leaders, including Germany's chancellor, Angela Merkel, in September and President George Bush in October, helped to inspire anti-Chinese dissidents in Tibet. One Chinese official says demands by Britain and other Western countries for direct talks between China and the Dalai Lama himself would be hard to meet because of the depth of Chinese public

antagonism (inspired by official propaganda) towards the Dalai Lama in the wake of Lhasa's racial attacks.

There is relief in Beijing that no Western government has yet called for a boycott of the opening ceremony of the games, let alone of the event itself. But officials are acutely aware that Tibet grips public attention in the West far more than China's connections with Sudan—hitherto the main stalking horse of critics of Beijing's Olympics. A Western diplomat says China would have to start “mowing people down in the streets” to precipitate government-led boycotts of the games. This discounts the dozens who exiled Tibetans say have already died in the crackdown. And the coming months will provide much opportunity for miscalculation by China in its handling of Tibetan unrest.

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Taiwan

Ma's horse comes in

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The new president offers the hope of smoother relations with China

THE predictions had been for a much closer race. But on March 22nd Ma Ying-jeou of the Nationalist party, the Kuomintang or KMT, won by a distance to succeed Chen Shui-bian of the Democratic Progressive Party (DPP), who steps down on May 20th after eight disappointing years as Taiwan's president. With over 58% of the vote, Mr Ma was 17 percentage points ahead of Frank Hsieh, the DPP's candidate. Following an even bigger landslide in parliamentary elections in January, the KMT returns through the ballot box to dominate the politics of an island that for decades it ruled by force.

A Harvard-educated lawyer and former mayor of Taipei, Mr Ma, 57, had been marked for high office at least since becoming secretary to Taiwan's last dictator, Chiang Ching-kuo, son of Chiang Kai-shek. Campaigning for the presidency, Mr Ma promised to boost the economy, push to open direct transport links with China and mend fraught relations not just across the Taiwan Strait but also with the island's protector, the United States, after Mr Chen's pro-independence “adventurism”.

No doubt, Mr Chen dealt Mr Hsieh a terrible hand. He had come to office in 2000 as the champion of native-born Taiwanese resentful of the KMT, a party dominated by those with roots in mainland China. Mr Chen called for social justice but proved divisive, as he promoted a new Taiwanese identity above all else.

Though Mr Chen scraped through to win a second term in 2004, what little economic competence or interest he showed was frustrated by the opposition, which had a parliamentary majority. In addition, embezzlement scandals engulfed his wife and son-in-law. Under Mr Chen, the DPP, so long a beacon of change, was losing its moral authority—witness the mudslinging of Mr Hsieh's campaign, maligning even Mr Ma's late father. Swing voters, many of them young, nearly all went to Mr Ma. Two referendums asking voters whether Taiwan should attempt to join the United Nations—a provocation to China—also failed to pass. On election night, Mr Hsieh, a lawyer who had begun his political career defending dissidents, said he would retire from politics. The DPP now faces bitter years in the wilderness.

Mr Ma wants to boost an economy that has fallen behind some neighbours' and that is now vulnerable to slowing exports and growth. He champions a more vibrant service sector, notably in finance, health and tourism: Taipei, for instance, has shed a dismal, smoggy reputation to become one of Asia's most vibrant cities. If he has his way, $130 billion will be spent on roads and railways, and on the port infrastructure to accommodate more trade and travel with the mainland.

Of 1m Taiwanese living and working there, some 200,000 came home to vote. Since direct flights are banned, they had to change planes in Hong Kong. Mr Ma wants swiftly to open direct links with China, which is also Taiwan's biggest trading partner, starting with weekend flights by July 1st. Mainland tourists, to whom Taiwan has been closed, would provide a huge boost, Mr Ma argues. And he wants to pursue free-trade agreements with Asian neighbours and America. In this, Taiwan lags behind its neighbours, thanks mainly to Chinese objections. Mr Ma says Taiwan should overcome these by negotiating as a mere “customs territory”.

Direct transport links would be a first gesture towards China's rulers. But Mr Ma also wants political dialogue, suspended for the past decade, and a peace treaty. The starting-point for talks, he says, should be the “1992 consensus”, in which both China and Taiwan agreed that there was but “one China”, but begged to differ on how to define it. “Mutual non-denial” is Mr Ma's contribution to the arcane vocabulary of cross-strait theology, which thrives on creative ambiguity. It is, in effect, a promise no longer to challenge the status quo, in which Taiwan is sovereign in fact though not in law. China would be churlish not to welcome that.

Yet Mr Ma may be a disappointment to China, particularly following a period when contacts between the

Communist Party and the KMT have flourished. If Mr Ma does dream of eventual reunification, it is presumably with a democratic China: dream on. In the meantime, he is not shy of stressing Taiwan's sovereignty. He condemns China's crackdown on Tibetans and has said the Dalai Lama would be welcome at his inauguration. Mr Ma seems likely to continue attending an annual memorial for victims of the 1989 Tiananmen Square massacre. And he is likely to press President George Bush for F-16 fighter jets, which Mr Chen never got. This will be a sore test of China's recent policy of winning Taiwanese hearts and minds. A gauge of China's policy towards Mr Ma may come in May, when Taiwan will seek observer status at the World Health Assembly, the WHO's decision-making body.

But before laying the foundations, as he promises, for a “century of peace and prosperity”, Mr Ma must repair the fissures of the Chen era and (equally hard) assert control over his own party. The conciliation has already begun: for the presidential campaign, Mr Ma, a Mandarin speaker, mugged up on the local Taiwanese language and showed that it was possible to campaign as if ethnic divisions had been healed—we are all Taiwanese now. That appealed especially to younger voters less haunted by the bitter past. Mr Ma has since hinted at adopting much of the DPP's platform. He may even be minded to pardon the Chen family of alleged corruption.

As for the KMT, Mr Ma, scholarly and soft-spoken himself, faces a party of powerful factions and political thugs. He will need to impose discipline, and to take care not to pack his government with the brutish and the corrupt. After winning the vote, he will have a struggle to bring a new KMT out from the shadows of the old.

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India's civil service

A bonus for babus

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India's public service needs reform more than it needs a raise

Get article background

IN THE Ladakh plateau, high in the Himalayas, thousands of Indian troops man an icy front against Pakistan, at altitudes as high as 6,000 metres (20,000 feet). In May 2007 this district received a visit from India's sixth central pay commission, headed by B.N. Srikrishna, which had the task of deciding a reasonable rate of pay for such labour.

That was just one of the calculations the commission had to make. On March 24th it released its salary recommendations for more than 4m people paid by the central government. In the 11 years since the last such commission, India's real income per head has more than doubled. So its findings were awaited with keen anticipation by government workers, and dread by taxpayers.

In the event, neither emotion was wholly justified. Mr Srikrishna raised salaries generously at the top and bottom of the scale, leaving the middle ranks disgruntled. The average rise, he calculates, would be about 28%. The toll on the taxpayer should be limited to 0.3% of GDP, excluding back pay of 180 billion rupees ($4.5 billion) and potential savings of $46 billion.

India's private sector is flourishing, but a government job remains a cherished prize, the commission found. At the bottom of the scale a vast retinue of unskilled workers enjoy pay and security far above what is on offer in India's brutal labour market. At the top, administrators enjoy a “wider canvas of operation” than they would find outside the government. Public employees also suffer less stress than their private-sector counterparts, which is one reason why the user of their services suffers more.

How to ensure India's public servants earn their extra money, by providing the brisk administration the country needs? Like other commissions before it, this one advocates extra pay for better performance. It goes further by arguing that performance should be judged against objective indicators by external agencies. India, which has fallen in love with standardised measures of business performance, such as ISO 9000, has invented one for the public sector, called *Sevottam*, which means “the highest”.

This sounds radical. But the commission lacks the courage of its conviction, arguing that ministries should be free to adopt this system or not, as they see fit. It also suggests, optimistically, that the bonuses will be paid for by the savings that better performance will bring. The commission boasts it completed its work early, using less than 60% of its budget, and only 17 of the 48 staff members permitted. That example, if not its recommendations, would serve India well.

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Pakistan

Zardari's big tent

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Benazir's widower tries to keep everybody happy

ASIF ZARDARI, widower of Benazir Bhutto, has played his cards well so far. After Miss Bhutto was assassinated on December 27th, he seized the reins of her Pakistan People's Party (PPP), capitalised on a wave of sympathy for her and led it to victory in the general election in February. Then he surprised everyone by offering to share power with the other big party—the Pakistan Muslim League (Nawaz), or PML(N), of Nawaz Sharif, a former prime minister, with which the PPP has long been at odds. Mr Sharif was bent on a confrontation with President Pervez Musharraf that would have created unrest and hurt the prospects of the new government. But by including Mr Sharif, Mr Zardari has engineered a degree of stability. And on March 22nd he executed his masterstroke.

After weeks of suspense about who would be the PPP's nominee for prime minister—Mr Zardari himself was ruled out because he had not contested the election—he nominated Yousaf Raza Gillani, a nondescript feudal landlord from Punjab province. From many points of view, Mr Gillani seems an ideal choice. He is a sop to the powerful province of Punjab, because the big jobs in government are likely to go to party stalwarts from Mr Zardari's home province of Sindh, where the PPP swept the polls. Amin Fahim, who had been widely tipped as the likely prime minister, was a lieutenant of Miss Bhutto and a big feudal landlord and rival from Sindh, who might have been hard to dislodge. But Mr Gillani is a diehard PPP loyalist, who is expected gamely to make way for Mr Zardari as prime minister after he wins a by-election in a few months' time.

EPA

A salute for Gillani, the stopgap premier?

In his first move as prime minister, with Mr Zardari pulling the strings, Mr Gillani freed all the judges detained by President Pervez Musharraf and promised to restore them to their old jobs in the high courts of the country—but did not say when. This is meant to take the sting out of a lawyers' movement that is threatening to provoke a confrontation with Mr Musharraf. If the judges are fully restored, they will not take long to dethrone the president and the judges who have taken their places. But Mr Zardari wants to avoid precipitating an immediate showdown between parliament and government on the one hand, and the president and the present Supreme Court on the other. That might compel the army to step in again, as it has so often, with unpredictable consequences.

The new government has enough on its plate without such constitutional clashes. It has to take “ownership” of the unpopular “war on terror”, widely seen in Pakistan as an American war fought there with Pakistani blood. And in the economy, belt-tightening measures have to be taken after months of political indecision and instability. Mr Zardari's solution is to make “national reconciliation” coalition governments in Islamabad and the four provinces so that the PPP is not singled out for popular wrath. This is problematic. If all the coalition partners are accommodated, the administration will be the most bloated in Pakistani history, whereas Pakistan needs leaner government. To soften the blow, Mr Zardari is expected to recruit new coalition partners in three phases.

Significantly, Mr Zardari has succeeded in wooing the Muttahida Qaumi Movement (MQM) that controls urban Sindh. Since the PPP had the numbers to form its own government in Sindh, this move was not strictly necessary. It has alarmed the PML(N), because the MQM remains a staunch supporter of Mr Musharraf. Mr Zardari is not putting all his eggs in the anti-Musharraf basket, perhaps because he thinks the president still has a role to play, albeit a much reduced one. The Bush administration seems to agree. It sent John Negroponte, the deputy secretary of state, and his assistant, Richard Boucher, to Islamabad on March 25th to make exactly this point to the new government.

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Criminal justice in Japan

Throw away the key

Mar 27th 2008 | TOKYO
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Japan's Supreme Court misses a chance to right a 42-year-old wrong

IN 1966 Iwao Hakamada was accused of killing a family and setting fire to its house during a robbery. He denied it. But after 19 days of 12-hour interrogations by police and prosecutors, he confessed. He saw a lawyer just three times for a total of 37 minutes. At his trial he said the “confession” had been coerced: the police had beaten and threatened to kill him. Judges noticed discrepancies in the confession, and demanded he redo it—45 times—until they were satisfied.

Mr Hakamada was found guilty in a 2-1 decision. The dissenting magistrate, Norimichi Kumamoto, quit the bench in silent protest. Last year he broke 39 years of silence to denounce the verdict. Requests for retrials and appeals had been denied from the 1970s onwards. But armed with the former magistrate's words, supporters of Mr Hakamada, who has come to symbolise the rot in Japan's criminal-justice system, felt their case was strong.

Yet on March 24th the Supreme Court turned down a retrial plea, citing a lack of “reasonable doubt” about the verdict. His lawyers plan to appeal against the decision. As for Mr Hakamada, now 72, he is losing his mind as he languishes in solitary confinement on death row.

Article 34 of the Japanese Constitution guarantees the right to counsel and *habeas corpus*, but is systematically ignored. Police and prosecutors can detain suspects for 23 days. Interrogations are relentless and sometimes abusive. Prosecutors are reluctant to bring cases to trial without a confession. Indeed, it is considered a first step in a criminal's rehabilitation. When asked about the country's 99% conviction rate, Japan's justice minister, Kunio Hatoyama, corrected your correspondent to state that it was actually 99.9%, because prosecutors only present cases that are watertight.

Slow reform is coming. First, to tackle an acute shortage, the government is to let more people pass the bar exam and become lawyers: at present Japan has a mere 24,000, ten times fewer per head than Britain. Only 7% of students pass the bar exam. Second, a jury system will be brought in next year for serious cases. This will open the judiciary to greater public scrutiny. Third, the police are to introduce procedures for monitoring interrogations (though they rejected proposals to videotape them). All too late for Mr Hakamada.

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Bhutan

Voting on the king's orders

Mar 27th 2008 | BJEEZAM AND THIMPU
From The Economist print edition

A timely, well-managed and noble democratic transition

AP

STREAMING down mountain paths in their best national costume, Bhutanese voted in their country's maiden election on March 24th. Of 320,000 registered voters, nearly 80% cast a ballot, a triumph for civic educators in the fastidiously administered Himalayan kingdom. Of the two parties, the Druk Phuensum Tshogpa (DPT) won 44 out of 47 seats. Voters may have liked the three former prime ministers—including the party leader, Jigme Thinley—among its candidates. Little else distinguishes it from its rival, the People's Democratic Party (PDP), led by another former prime minister, Sangay Ngedup, brother of the former king's four wives.

In Bjeezam village, voters waited amiably at a polling station in a heavenly wooded gorge by a crashing white stream. Many had travelled for hours from Thimpu, the capital, to vote in their birthplace. Peasants and city-slickers alike turned a giant Buddhist prayer-wheel at the polling station's gate. “Democracy can be a good thing—we hope,” said one metropolitan voter, Norbu Wangdi. But the transition has stirred more anxiety than joy. Both parties say they would have preferred to keep monarchic rule. Many who voted said they did so, with a heavy heart, to respect the wish of the king, Jigme Singye Wangchuk, who recently abdicated.

King Wangchuk transformed Bhutan from one of the world's most reclusive poor countries to one of its more enlightened. The economy has grown at an average annual rate of 7% over the past 25 years, largely thanks to exports of hydro-electricity to India. With huge investments in public health care, life expectancy rose during the king's reign from 40 to 66. During the 1990s the primary school enrolment rate leapt by over a quarter, to 72%.

At the same time, the king maintained strict control over his 700,000 subjects—in particular, through decrees preserving the environment and the Buddhist culture of the majority. In a society rich in sacred streams and memories of demons, this was, by and large, popular. It also ensured the protection of a precious ecosystem; under Bhutan's draft constitution, which Parliament will soon approve, at least 60% of the country must be forested.

Yet the king's decrees—formulated into an overarching policy of “Gross National Happiness”, as opposed to economic growth at any cost—have not always helped alleviate poverty. Stringent checks on the exploitation of Bhutan's timber, for example, have helped ensure that rapid economic growth has created relatively few jobs. Though furnished with free medicine and education, some 20% of Bhutanese live below the poverty line.

A big minority—Nepali-speakers from the country's south—have deeper grievances. Under pressure in the late 1980s to adopt the culture of the majority, some arose violently. In response, the government drove around 60,000 (including, it says, many illegal immigrants) into Nepal. More than 100,000 still languish there in UN-run camps; America has offered sanctuary to 60,000.

This will not end the worries of the 100,000 odd Nepali-speakers who remain in Bhutan. Thousands have allegedly been denied citizenship because of their association with those in exile. For the southerners, at least, democracy promises something better. Nine of the DPT's winning candidates were Nepali-speakers. Officials in both parties said that resolving the southerners' grievances was a priority.

In general, candidates promised voters more of the benefits the king gave, including roads and electricity. Some villagers quietly complained about the former regime. By tradition, the king gives land to the landless and timber for house-building. Yet in the remote village of Miseytang, a poor landless trader said that after a month spent presenting her petition in Thimpu, a nine-hour drive away, she had received half an acre of protected forestry land. “It's useless to me,” she lamented, standing outside her fine house, facing a school where her three children were educated free, next to a health clinic, also free.

Most Bhutanese applaud the king's rule. But his decision to impose democracy on them looks canny. There is enough social change evident in Bhutan to suggest a political change was in store. In Thimpu, a city of 100,000, unemployment, and disgruntlement, is rising among educated youths. “Bad Boyz!” exclaims graffiti on a Thimpu building-site. The former regime's success in education, and failure to boost Bhutan's tiny private sector, is partly to blame for their frustrations. So is a fresh limit on civil-service hiring; last year around a third of the country's new 1,200 university graduates found no state job.

The new government will have to find jobs for the boyz. In the short term, tourism is the best hope. A plan to double the number of tourists (20,000 last year) aims to create a total of 100,000 jobs in the sector. This will require a new international airport; the current one, at Paro, is shunned by every national carrier except Bhutan's because of its terrifying hilly approach.

More important, to improve the lot of poor peasants, the government will have to lead them out of subsistence farming. To bring their goods to market, alas, many more roads must no doubt be bulldozed through pristine forests. And the last of the hidden kingdom will come into view.

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Iraq

Wobbling all over the place

Mar 27th 2008
From The Economist print edition

Five years after America invaded, the military and political situation is improving in fits and starts. But this week's intra-Shia violence underlines the uncertainties

AFP

Get article background

GETTING better or worse? In truth, it is hard to say. Iraq's fortunes have been swinging up and down in the past few months. Broadly speaking, the military “surge” of American troops has been a success, violence has continued overall to dip, and politics has stumbled ahead at a snail's pace, in the right direction. The general trend in the past nine months has been up. Yet talk of the corner turned, much aired in Washington, is still premature. True political conciliation between the main communities, especially the Shia and Sunni Arabs, is still far off. Al-Qaeda has been more or less squeezed out of the Euphrates valley, but a fierce insurgency persists, especially along the Tigris valley between Baghdad and Mosul to the north. Earlier this week, the grim milestone of America's 4,000th serviceman to die since the invasion five years ago was passed.

To complicate matters, this week also saw a furious upsurge of violence between rival Shia groups striving for supremacy within the new ruling establishment. It was a special test for the fledgling Iraqi army, which the prime minister, Nuri al-Maliki, sent to clobber the most powerful of the Shia militias, the one loyal to a radical cleric, Muqtada al-Sadr, in Basra, the biggest southern city. As a result, Sadrist militias across central and southern Iraq rose in angry solidarity in several other cities, such as Kut, Hilla and Diwaniya, and in eastern Baghdad, their stronghold. To display their ire at the Americans' presumed connivance, the militias also hurled a barrage of mortars into Baghdad's Green Zone, where the Americans and the Iraqi government have their headquarters.

Across the country, some 70 Iraqis, mostly Sadrist militiamen, were reported to have been killed in several days of fighting. American and British advisers were discreetly at hand on the ground and provided air support for the Iraqi army. But it was mainly an Iraqi affair. Unusually, Mr Maliki visited Basra to urge his troops on.

Elsewhere, notably in the Sunni-inhabited Anbar province to the west of Baghdad, the scale of violence continues to decline. In Baghdad itself, it is sharply down too. The Americans say the number of attacks there fell fourfold from June to January. The civilian death rate across the country, they reckon, is more than five times lower than it was a year ago. The worst areas are now Diyala province and around Mosul, a bedrock of Baathists who were loyal to Saddam Hussein.

Several factors have helped improve security. One is the American surge of an extra 28,000 troops,

mainly into Baghdad, bringing the overall number to around 160,000. Another is the ceasefire called by Mr Sadr in August, renewed last month and apparently still technically in force, despite this week's fighting, some of which may have been directed against renegade Sadrist groups; it has never been clear how much Mr Sadr, who has recently spent much time in Iran, actually controls his militias. A third factor, perhaps the most telling, is a series of agreements with Sunni sheikhs in Anbar and parts of Baghdad, known as the *Sahwa*, or Awakening, whereby some 80,000-90,000 “concerned citizens” were armed and turned against insurgents tied to al-Qaeda.

Recently, however, fears have grown that these Sunni vigilantes, many of them former insurgents, could turn again on the Shia-led government, unless Mr Maliki agrees to give them more arms and money and encourages their induction into the regular army or police. This he seems reluctant to do. Indeed, he still seems loth to seek a whole-hearted accommodation with the Sunnis, perhaps believing that they should accept a subordinate place in the new Shia-dominated order. Especially in the mixed-sect province of Diyala, grumbling among the *Sahwa*-supporting sheikhs may be rising.

So the military situation, as the Americans see it, is hopeful but fluid. It could still take a turn for the worse. General David Petraeus, their overall commander in Iraq, is reluctant to let his political bosses order too rapid a withdrawal. Robert Gates, the defence secretary, at first said he hoped to bring the figure down to 100,000 troops by the end of the year. But more recently, presumably at the general's behest, he said they should remain at 130,000 or so. The general had said the main surge would be over by July this year. He and the ambassador to Iraq, Ryan Crocker, are to report to Congress early next month. They are likely to plead for a “strategic pause” for the generals, diplomats and politicians to ponder their next move. No one is sure how a Democratic president, if he or she were elected, would handle the drawdown.

Iraq's politics are still a mess—but a bit less stuck than a few months ago. Mr Maliki's government has little coherence; in essence, it remains a collection of competing fiefs, each trying to maximise its power of patronage. But a three-man presidential council—a Sunni, a Shia and a Kurd—plus the prime minister has begun to help some big decisions to be taken.

A budget has been passed; so was a law to let all but senior Baathists back into public service or get pensions. And so, after a last-minute hiccup, was a law to let provincial elections be held in October (though that date may slip a little), in the hope that Sunni Arabs and Sadrists, who officially boycotted them last time, will be empowered—and feel readier to engage in peaceful politics to the disadvantage of the insurgents. The key laws still unpassed, due to a long-standing wrangle mainly between Kurds and Arabs, are those that would clarify the management and exploration of oil and the sharing of its revenue.

The Kurds, meanwhile, continue to consolidate their rule in the north—and the Shia-led government in Baghdad is gradually accepting it. A state visit this month to Turkey by Jalal Talabani, a leading Kurd who is also Iraq's president, was a notable step towards better relations between Turkey and Iraq, including the Iraqi Kurds, who may have made discreet promises to help squeeze out the guerrillas of the Kurdistan Workers' Party (PKK), whose havens inside northern Iraq the Turkish army recently attacked in force. The Iraqi Kurds' reward is wider acceptance of their highly autonomous entity.

Despite the continuing political and military turbulence, much in evidence this week, a lot more Iraqis

seem to see light at the end of the tunnel. A survey conducted for ABC News and others late last month showed a sharp rise in optimism, with 54% saying their lives were now good against 45% saying they were bad, compared with 39% to 60% in August. This week's bloodshed was a reminder that even among Iraq's dominant Shias there is plenty of scope for internecine mayhem. But the gloom, across the fractious country, is a lot less deep than it was a year ago.

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Iraq

Boxing is good for reconciliation

Mar 27th 2008 | BAGHDAD
From The Economist print edition

Breaking down sectarian barriers by letting youngsters biff each other

Get article background

WHEN the fighting resumes it will be a welcome return to normality for a bunch of muscular young men in Baghdad's recently beleaguered Sunni enclave of Adamiya. They have managed, for five years, to avoid bullets and bombs. Now they will be ducking and weaving in a boxing ring where generations of Iraqi champions were reared in times of peace. For the Adamiya Boxing Club, one of the capital's oldest and most respected sporting institutions, is poised to open its doors again. And the punchers will, it is hoped, come from both Shia and Sunni districts.

Until recently the club, at a strategic crossroads in the heart of Adamiya, had been used as a barracks by the Iraqi army. Its famous ring had been chopped up for firewood by soldiers trying to keep warm. Now the club echoes to the sound of hammers and drills. Volunteers are up ladders, rewiring and repainting. Some 300 aspiring pugilists ranging in age from eight to 50 are dusting off their gloves.

A deal arranged with the Iraqi army by American commanders in the area has seen the club handed back to the community. “Life is far from perfect but it's a sign it can begin again,” says the club's jovial boss, Farouq Shamsoon, a boxing legend who fought for Iraq in two Olympic games. He insists that there will be no sectarian animosity. “Our club has always been for everyone.”

Since the sectarian bloodbath after the bombing of the Shias' Samarra mosque in early 2006, Baghdad has become a labyrinth of concrete blast-walls behind which sectarian tensions have been contained but not eliminated. Adamiya has been walled off. Once a stronghold of support for Saddam Hussein, it then, during America's occupation, became a haunt of various Sunni insurgent groups, including al-Qaeda. Perched on the tip of the mainly Shia east bank of the Tigris river, it is hemmed in by predominantly Shia districts. Its inhabitants were terrorised, after the Samarra bombing, by Shia militias.

Then the Americans put up a “great wall” of concrete, several metres high, several miles long. They also encouraged the setting up of neighbourhood security groups known as “Sons of Iraq”. Many locals say they hate the wall and are suspicious of the armed young men manning local checkpoints alongside it, but the violence has dropped dramatically. Mr Shamsoon says his club will also pull down mental barriers. “Our youths have seen the futility of street violence,” he says. “We will channel their energies to something more positive.”

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The Gaza Strip

Hamas's battle for hearts and minds

Mar 27th 2008 | GAZA
From The Economist print edition

How Palestine's Islamists are working to consolidate their support

Get article background

ATTEMPTS at a rapprochement between the Palestinian Islamist party, Hamas, and its more secular rival, Fatah, faltered this week almost as soon as they had begun. Mahmoud Abbas, president of the Palestinian Authority (PA) and head of Fatah, quickly disowned an agreement that his negotiator had signed after talks with Hamas representatives in Yemen.

The fact that America's vice-president, Dick Cheney, was visiting him at the time may have helped put the already reluctant Mr Abbas off the deal. Since Hamas won PA parliamentary elections in 2006, Fatah, with the help of much of the Western and Arab world, has been trying to dislodge it. After Hamas's bloody takeover of the Gaza Strip last June left Mr Abbas in control of only the West Bank, the West and Israel talked about making the West Bank a shining example of what Gazans could aspire to—if they got rid of Hamas.

But that scheme is failing. In the West Bank, Israel has done nothing to ease the maze of checkpoints and roadblocks that cripple the economy, and its talks with Mr Abbas on a Palestinian state are yielding no visible progress. A blockade it imposed on Gaza backfired in January when militants broke through Gaza's southern wall bordering Egypt, briefly letting hundreds of thousands of Palestinians replenish their stores. The constant exchange of Palestinian rockets and Israeli air raids escalated a month ago into a battle that killed two Israeli troops and well over 100 Gazans, many of them children.

Yet not even this death toll doused Hamas's claims of victory. A survey earlier this month by the West Bank-based Palestinian Centre for Policy and Survey Research gave Fatah 42% of Palestinian support and Hamas 35%, a far smaller gap than two months ago. Ismail Haniyeh, Hamas's leader in Gaza (and, until Mr Abbas sacked him in June, the PA prime minister), would also beat Mr Abbas for the presidency, albeit by a whisker, for the first time ever. The presidential poll is nine months away.

Now Hamas is using a relative lull since the battle to consolidate its support. It is paying people who have lost homes or breadwinners in the clashes and ensuring that Islamic charities look after the wounded. Donations from the rest of the Muslim world have increased.

But it is not as much as Hamas needs to meet the growing demands on its own charities, which are supported by members paying 2% from their withering incomes. “The youth are very pessimistic because there is no hope,” says a relatively moderate member of Hamas's secretive governing council, the *Shura*. “Girls and boys are coming to my door to be suicide-bombers. I try to convince them to go and live their lives.”

Older recruits are not turned away. They have flooded to Hamas's armed wing, the Izz ad-Din al-Qassam Brigades. The brigades are master suicide-bombers, but are becoming an increasingly regular military force. This boosts Hamas's confidence that it can control rival militias, which launch most of the rockets at Israel, should it succeed in turning the current lull into a formal ceasefire.

A network of Hamas members reports weekly to senior leaders to discuss community sentiment. They alerted the movement to its plummeting popularity in the wake of its brutal takeover of Gaza last year. It responded by clamping down on clan violence and instructing its own militia to be kinder to the public.

However, Hamas is now attempting to sell the virtues of a ceasefire to a battered people accustomed to talk of “steadfastness” and “resistance”. A group of leading thinkers is to visit universities and hold symposia to convince Gazans that a period of calm will help lift

Reuters

the siege and rebuild their disappearing economy. Meanwhile Hamas continues broadcasting messages about the worthlessness of Mr Abbas's negotiations with the Israelis.

Could Haniyeh be the people's president?

Yet for Palestinians on Gaza's front-line, Hamas is less impressive. In the border towns, which get hardest hit when Israel invades, Fatah support is much higher than in Gaza City, according to al-Mustaqbal, a polling firm with ties to Hamas. And when Palestinians swept Hamas to power in 2006, they believed the Islamists would clean up the corruption-riddled PA and bring social and economic progress, not turn Gaza into a war zone.

So now it is trying to return to its election mandate. Tucked away in desk drawers are plans to attract foreign investment, build factories to replace goods imported from Israel, create jobs, provide public land to farmers with cheap loans and send Gaza's fishing fleet back to sea. But Hamas has limited options. Its leaders privately concede they are desperate to end the siege. “All the leaders are interested in a ceasefire,” says a member close to Mr Haniyeh. “Israel has more weapons and can cause more damage.”

Hamas also admits that hitting more Israeli civilians, especially with the longer-range Katyusha rockets it fired earlier this month at the city of Ashkelon, may come at too high a price. “If you hit the heart of Ashkelon it will give them an excuse to hit Gaza and kill 2,000 people and the world will say nothing,” says Hamas's foreign-affairs spokesman, Ahmed Yusuf.

So Hamas has a lot riding on Egyptian efforts to find a longer-term solution. Israel says it wants Egypt to stop arms smuggling through tunnels under its border with Gaza before a ceasefire can be discussed. Hamas says it will accept members of Mr Abbas's presidential guard and the restoration of EU monitors on the Gaza-Egypt border, along the lines of an agreement that Israel and the PA struck before Hamas's election. But Hamas still shows no interest in giving up stockpiling armaments.

For now, therefore, Hamas's strategy depends on the acquiescence of Fatah and Israel, neither of which wants the Islamists to develop as a political force. This means all it has left is the threat of crisis. “If this ceasefire doesn't work, Hamas, Islamic Jihad and all other military factions won't surrender, there will be a massive reaction to end the siege. Creating crisis might help create opportunity,” says Mr Yusuf.

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Iran

The rites and wrongs of spring

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From The Economist print edition

A joyous festival that has survived religious strictures of every kind

Get article background

WITH rockets streaking through the smoky sky, raucous crowds leaping in the shadows cast by thousands of bonfires, and ear-splitting bangs resonating through the night, Iran's capital looked like a city in the midst of a violent revolution. But last week Iranians were not protesting against the outcome of the elections on March 14th that strengthened religious conservatives in parliament. They were, with a gusto scarcely dimmed by 30 years under strict Islamist rule, celebrating the launch of Nowruz, the pre-Islamic festival that marks the start of the new year in Iran and half a dozen countries nearby.

In the early years after the Islamist revolution that overthrew Iran's last shah in 1978, Nowruz's future looked uncertain. The many and varied rites associated with the fortnight-long holiday may sound innocent enough: gift-giving, trick-or-treating, fireworks, open-air picnics, the eating of special foods and the display of symbols of abundance such as goldfish, coloured eggs, potted plants and shiny coins. Yet Nowruz's pagan and Zoroastrian origins seemed to challenge state-enforced Muslim orthodoxy. Some clerics wanted the festival banned outright, as Afghanistan's Taliban later tried to do. Others suggested it be replaced with other holidays marking the births and deaths of Shia imams and martyrs.

What has happened instead, complain Iranians nostalgic for quieter times, is that Nowruz has taken on stronger nationalist tones and grown more strident. This is particularly true of the purification-by-fire marking the end of the old year. On the eve of the year's last Wednesday, revellers must jump seven times over seven fires, symbolically returning their tired “yellow” essence to the flames and taking from them their invigorating “red”. This can still be a family occasion, with parents gently hoisting toddlers over bonfires in the back yard.

But in much of Tehran, in recent years, the rite has turned into a dangerous cacophony of pipe-bombs and firecrackers. Daredevils zoom motorbikes through fires set in the middle of streets; pranksters shoot rockets at traffic cameras and police cars. Understandably, the authorities have grown more severe, threatening summary imprisonment for any hooligans they lay hands on. Still, that is mild compared with Syria, whose oppressed Kurdish minority celebrates Nowruz as a statement of its non-Arab identity. Syrian police in the largely Kurdish town of Qamishli recently shot three teenage fire-revellers dead.

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Botswana

The southern star

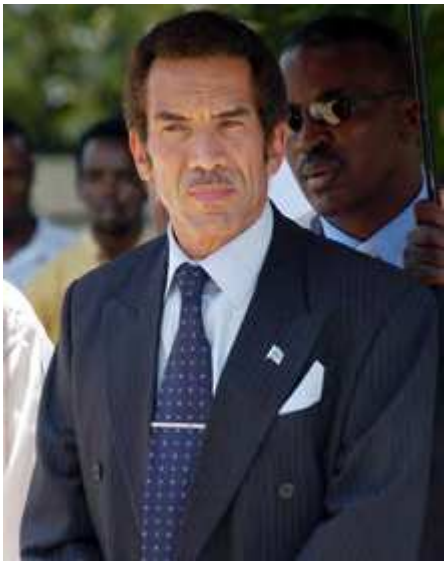
Mar 27th 2008 | GABORONE
From The Economist print edition

Botswana is a rare African success story but not without a few headaches

AN AFRICAN president stepping down of his own accord is still depressingly rare. Zimbabwe's Robert Mugabe has been clinging to power since 1980. But next door, in Botswana, a respected president, Festus Mogae, is graciously retiring this month after ten years in office.

Botswana rarely features in the news abroad. With only 1.8m people and the world's largest output of diamonds, it has been a model of stability, avoiding the violence, corruption and boom-and-bust cycles that have plagued so many mineral-rich countries. Yet it had little going for it at independence in 1966. It had only 13km (eight miles) of tarred road. Most of its people, often drought-afflicted, scraped a living rearing cattle.

AIN foto



Khama looks for karma

Largely covered with sand, it had little agriculture—and few white settlers: it never experienced the bitterness of land dispossession and the ensuing disharmony that poisoned race relations in South Africa, Zimbabwe and Kenya. Mr Mogae's anointed successor, Ian Khama, is half-white, but few people in Botswana think his colour matters.

Diamonds have changed the country's fortunes. Its per capita income of $5,900 is four times the regional average and higher than Malaysia's. The diamond wealth has been spent on roads, sanitation, schools and clinics, not on palaces or Swiss bank accounts. AIDS has hit the country hard, but almost 95,000 patients—86% of those who need it—get anti-retroviral treatment.

In Gaborone, the capital, modern glass buildings are springing up. “Botswana is what it is because of diamonds,” acknowledges Mr Mogae. Yet it tops regional leagues for clean government. Economic growth has been steady, inflation moderate. There are no exchange controls. Taxes are among the region's lowest. The government has recently made it easier for skilled foreigners to come to Botswana for work.

The ruling party has stayed happily in power for 42 years. Lepetu Setshwaelo, who heads a small opposition party, admits it is hard to convince people that their government is no good. “They don't easily see the point of the opposition,” he sighs. Divisions within the two main opposition parties hardly help their cause.

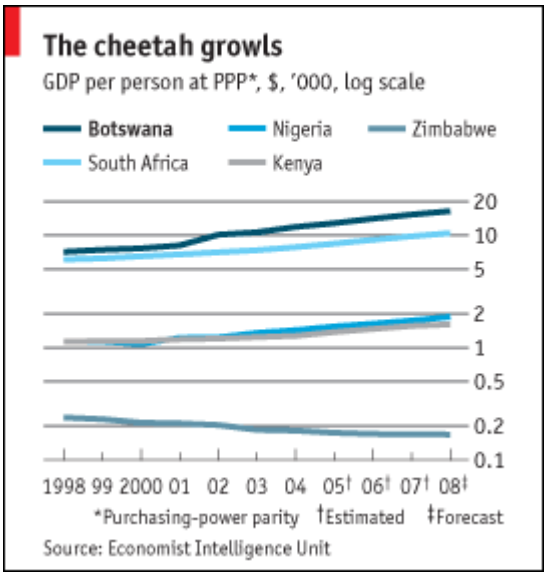
Botswana's democracy is steeped in tradition. In Mochudi, 35km (22 miles) north of the capital, a local chief listens to a resident's complaint on the veranda of a former colonial building, while a clerk takes notes. Every week, chiefs from the area gather in the open space shaded by a thatched roof, perched on an assortment of weathered chairs, sofas and stools. Most villages and towns are still ruled by chiefs, incorporated into the country's administration. Though unelected, they can lose their position if their subjects are unhappy with them and their decisions can be appealed in court.

It could be even better, though

Still, Botswana has its problems. Its government drives the economy; the private sector is feeble. According to the World Bank, local companies are not very competitive compared with those in other middle-income countries. Landlocked and with a minute domestic market, Botswana has struggled to lure foreign investors, bar those interested in minerals.

So unemployment is 18%; about one-third of the people are poor. The income gap between townspeople and those in the countryside is wide and growing. Too much depends on diamonds, which generate over 70% of foreign earnings, one-third of GDP and about half of government revenues. A partnership between a South African giant, De Beers, and the government produces almost all the country's stones. Without new discoveries, diamond revenues may nosedive in the next 15-20 years. Government has not managed to diversify the economy enough.

Large coal reserves and plans to build power stations could lessen reliance on diamonds. Botswana is also banking on creating some niches. Sixteen top international diamond cutters and traders have set up shop in Botswana, now that a fraction of local production is sold locally. The government wants to turn the country into a diamond centre that will not only cut the stones but also trade them and offer security and financial services.



Tourism has potential too. The “No. 1 Ladies' Detective Agency” series, Alexander McCall Smith's novels set in Botswana, has helped put the place on the map. Rows over relocating the Bushmen, Botswana's indigenous people (also called the San), from the Central Kalahari Game Reserve has muddied the country's shiny image a bit but has not kept tourists away.

The country also wants to be a regional financial hub, with its low taxes and liberal foreign-exchange regime. Pension reform has already helped foster a small fund-management industry. With lower labour costs and taxes than in neighbouring South Africa, Botswana is a good base from which to export to its big-brother neighbour, which is linked to it by a customs union along with Namibia, Lesotho and Swaziland. Outsourcing of government services and planned privatisations should help the tiny private sector to grow.

Too few Botswanans have the right skills, but it was hard, until recently, to bring in foreign staff. Education seems over-geared towards producing civil servants, not business people. Some investors say the locals lack drive. “We've been a nation of beneficiaries,” says Mr Setshwaelo, who, as well as heading the political opposition, also has a fruit-juice business. The state sector's wage bill, as a percentage of GDP, is one of the highest in sub-Saharan Africa.

Mr Khama wants to pep things up. As a former army chief and son of Seretse Khama, the country's much-admired first president, his style will be different. His detractors say he is authoritarian; his supporters call him decisive and efficient. However successful it has been, Botswana may need gently stirring.

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Italy's election

Promises, but no delivery

Mar 27th 2008 | ROME
From The Economist print edition

Silvio Berlusconi may be about to bounce back—but so too will Italy's deep-seated economic problems

EPA

Get article background

PRINCESS ALESSANDRA BORGHESE is no ordinary parliamentary candidate. A member of the family that produced the pope who finished St Peter's, she spent years in the international jet-set, briefly marrying a shipping heir who later died of a massive cocaine overdose. Ten years ago, the princess discovered religion. She is a friend of Pope Benedict and author of such improving works as “Lourdes. My Days in the service of Mary”. Last month she announced that she would run for the Senate in Lazio, the region round Rome, in the election on April 13th and 14th, as head of the list for the Union of Christian and Centre Democrats (UDC).

“I want to contribute to the rebirth of this country,” she told a press conference. The princess may not be typical. But her noble (if perhaps ingenuous) reason for standing is espoused by many first-time candidates. There are more in this election than at any time since 1994, when the media tycoon Silvio Berlusconi first burst onto the scene with a political movement composed largely of his executives.

Italy is a country in deep trouble. The Naples rubbish emergency (see article) is symbolic of a broader crisis in a country that, to use a word now much in vogue, is “blocked”: its economy is underperforming; its politics are stagnant; and all attempts at reform are apparently doomed to failure. Italy has also, however, been a country in profound denial. At least that is now changing.

There may be widespread disagreement over the causes of Italy's difficulties. But there is a common acceptance of their extent—and mounting anger at the shortcomings of a cronyistic political class, made up largely of ageing white males, often referred to as “the caste”. In an attempt to satisfy the public's appetite for change, the main parties have been outbidding each other to bring in new blood.

Of more than 300 lawmakers elected in 2006 who threw in their lot with the Democratic Party, the new movement on the centre-left, 134 have been ditched. The party leader, Walter Veltroni, astounded his longest-serving parliamentarian by replacing him with a 26-year-old woman. Around 30% of the party's candidates for the lower-house Chamber of Deputies are under 40, and 42% are women.

Mr Berlusconi is insisting on new faces too. Characteristically, several belong to former showgirls. But they also include the leader of a Moroccan women immigrants' association. Mr Berlusconi, whose People

of Freedom movement now embraces the former neo-fascists, has told associates that women will have at least a quarter of the seats in his cabinet.

After years of stultification, there is a new spirit of openness abroad. Yet the chances of an “Italian spring” are small. The opinion polls suggest that, rather than elect the relatively youthful (52-year-old) Mr Veltroni, the voters will return his 71-year-old rival, even though Mr Berlusconi's two previous governments (in 1994-95 and 2001-06) did Italy little good and much harm. This is a measure of the unpopularity of Romano Prodi's outgoing centre-left government, and especially of the tax increases it imposed.

In the early stages of the ten-week campaign, Mr Veltroni sought to latch on to developments in America by depicting himself as Italy's Barack Obama: the man who would surprise everyone by coming from behind. But, although demonstrably willing to innovate, Mr Veltroni has none of Mr Obama's inspiring rhetorical skills. The latest polls give Mr Berlusconi and his two main allies (in the Northern League and a Sicilian regional party) a lead of between 6.5 and 9.4 percentage points over the Democratic Party. That is little different from a month ago. Depressingly for the centre-left, a poll in *La Repubblica* on March 23rd suggests that Mr Berlusconi has a clear edge, of more than five points, among voters under the age of 29.

Mr Veltroni's hopes rest on two factors. One is the large number of voters who remain undecided and who, according to pollsters, are more left- than right-leaning in their outlook. The other is the idiosyncrasy of Italy's electoral system. On the present polling data, Mr Berlusconi would get a thumping majority in the lower house, in which the winner earns a “victor's premium” of extra seats. But in the Senate the picture is muddier. There, premiums are allotted region by region. And in five (out of 20) regions, the main parties are running neck-and-neck.

They are not the only ones in the race. The UDC, part of Mr Berlusconi's centre-right coalition until 2006, has split away. Its leader, Pier Ferdinando Casini, says he will not help make either main candidate prime minister. There is also a Marxist-Green alliance, the Rainbow Left, that would doubtless vote for Mr Veltroni if push came to shove. Like the UDC, it needs 8% of the vote in any one region to win seats. Polls give both groupings around 7% nationwide. Beyond the ballot box, then, rears the spectre of a possible stalemate, with one side controlling the Chamber of Deputies and the other the Senate.

That explains why both candidates have been urging voters to cast “useful” votes and hinting at a readiness to cut deals after the ballot. These are not the only points of agreement in a campaign that has been bland by Italian standards. To meet Mr Berlusconi's attacks on the Prodi administration, Mr Veltroni is, like his opponent, offering to cut taxes. Both promise higher pensions. Mr Berlusconi has also promised to stop the planned sale of Alitalia to Air France. But with the world economy deteriorating and Italy lumbered with a public debt that still exceeds GDP, whoever takes office will find promises much easier to make than to fulfil.

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Rubbish in Naples

Garbage in, garbage out

Mar 27th 2008 | NAPLES
From The Economist print edition

The embarrassing rubbish mountain in Naples subsides—for now

A COUNCIL worker loads sorted paper and cardboard from an “eco-emplacement” into a green dumper truck. Nearby a woman drops bottles into a bottle bank. Take away the pile of trash dumped on the pavement between them, and you could be in Germany. But this is San Giorgio a Cremano, the most densely populated borough in the province of Naples.

The latest and worst refuse disaster to hit Campania, the region round Naples, has at least persuaded some to make a difference. Images of garbage mountains have hit people's pockets as well as their pride. Hotel occupancy in Naples over Easter was down by a third to a half. The emergency has heightened anxiety about public health in a region where standards are bent by the local mafia. According to some reports, Japan has suspended mozzarella imports after dioxins were found in samples of the cheese, made from buffalo milk. The dioxins are thought to come from grass contaminated by illegally dumped waste.

The latest trouble erupted in December, when Campania's landfill sites were declared full. It helped to bring down Romano Prodi's government, as both city and region are run by the centre-left. In characteristically dramatic fashion, his likely successor, Silvio Berlusconi, said he was “staying up at night working out how to solve it”. In fact, when the next government arrives it should have been solved—at least temporarily.

Mr Prodi gave a tough former police chief, Gianni De Gennaro, until May 10th to clear the streets. His office said this week that all but a fifth of what was once an estimated 200,000-250,000 tonnes had been removed. Naples itself is virtually clear. Around 65,000 tonnes is being sent to Germany. Some is being dealt with in other parts of Italy. Most of the rest, though, is being stored in inadequately differentiated bales misleadingly named “eco-balls”. These are produced by outdated plants from unsorted garbage and do not conform to modern standards for incineration.

Mr De Gennaro's medium-term plan is to increase refuse separation while opening three new dumps to take unsorted rubbish. That would allow the six eco-ball plants to be upgraded. They could then produce waste that was disposable—indeed, sellable—elsewhere (Campania has no incinerators of its own). But time is tight. At the present rate, it will take less than ten months to fill all three new dumps. “It only needs the Germans to stop taking shipments or the dumps to fill up for the crisis to re-erupt,” says Peppe Ruggiero of Legambiente, a green lobby group. Mr Berlusconi is right to be staying up.

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Troubled Armenia

Protests continued

Mar 27th 2008 | YEREVAN
From The Economist print edition

Armenia is still teetering, and war clouds are gathering

IN HIS Easter service Karekin II, spiritual leader of Armenian Christians, exhorted his congregation to be “one flock, with one shepherd”. For diplomats present the prelate's words were laced with meaning. Might he be urging Armenians to rally behind the president-elect, Serzh Sarkisian?

Over a month after Mr Sarkisian, the prime minister, declared victory in the February 19th presidential election, his future is uncertain. Trouble began when thousands of protesters led by his rival, Levon Ter-Petrosian, took to the streets, claiming that Mr Sarkisian stole the vote. The protests turned bloody when eight people were killed on March 1st. Emergency rule was imposed, although it was lifted as promised on March 21st. But later that day hundreds of riot police intervened when a largely female crowd tried to hold a vigil in memory of the dead.

Opposition supporters are being arrested in droves. One activist alleged that his car was torched because he backed a pro-opposition news channel, Gala. A hastily crafted law to bar political gatherings has been approved by parliament. Such tactics are calculated to stifle opposition for good. But can they?

Some Western diplomats fret that Armenia's strife might tempt a bellicose Azerbaijan to try and regain control of the disputed enclave of Nagorno-Karabakh. The Azeris are said to be spooked by Kosovo's successful campaign for independence and fear that Nagorno-Karabakh might win international recognition. Ominously, Azerbaijan threatened to pull out of international peace talks after America, Russia and France voted against a UN resolution calling for the withdrawal of Armenian forces from Nagorno-Karabakh and the surrounding region. This follows some of the deadliest border skirmishes between Azeri and Armenian forces in years.

Mr Sarkisian is due to be sworn in on April 9th. He “needs to win the confidence of the Armenian people, so that we may unite before this threat [from Azerbaijan],” says one official. The surest way to do that would be to order an independent investigation of the March 1st events, declare an amnesty for recent political detainees, and form a cabinet untainted by graft, suggests Anahit Bakshian, an opposition member of parliament.

The Americans are threatening to freeze millions of dollars in aid. Armenia should “pull itself together and get back on a democratic path,” says Dan Fried, of the State Department. Or Armenia “may go the Belarus way,” says Mrs Bakshian. Yet few believe that this is what Mr Sarkisian would choose. Although a nationalist and no liberal, he has presided over record growth and a sharp reduction in poverty. A chess player and veteran of the Karabakh war in the 1990s, Mr Sarkisian has kept close ties with Russia even as he has courted the West.

Mikhail Baghdassarov, a businessman and ally of Mr Sarkisian, believes he will usher in young Western-trained technocrats and make the market-friendly governor of the central bank, Tigran Sarkisian, prime minister. Mr Ter-Petrosian vows to keep his supporters on the streets until the election is overturned. There is a whiff of revenge about his campaign, but his fiery talk of justice and freedom has inspired Armenians. “Until this election I wasn't interested in politics. Levon gave us the feeling that we can shape our own destiny,” says a young Armenian painter. “No amount of repression can take that feeling away.”

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Hungary's economy

A Magyar mess

Mar 27th 2008 | BUDAPEST
From The Economist print edition

Hungary may soon be overtaken by its neighbours

FINANCIAL markets are jumpy about several east European countries. One of the more vulnerable is Hungary, notorious for its budget and current-account deficits. Once the local wonder child, Hungary is limping, its government outmanoeuvred by the opposition, its economy sclerotic and its population resentful. Earlier this month voters hammered the government in a referendum, when over 80% rejected charges for doctors' visits, hospital stays and tuition fees in higher education. The sums involved are small (300 forints, or some $2, for a doctor's appointment), but they still caused anger, pushing turnout over 50%.

Poverty and decades of state provision make Hungarians reluctant to pay again for services they already finance through taxes. The result was a triumph for Fidesz, the right-wing opposition party, which campaigned against the charges on a platform of patriotism and generous state provision. Fidesz cut deep into the ruling Socialists' voter base. Around 3.3m voters rejected the charges, almost 1m more than had voted for Fidesz in 2006.

The prime minister, Ferenc Gyurcsany, promised to scrap the charges, but added that no new funds would be available to make up for them. Other problems remain. Hungary has the heaviest tax burden in the region. Some 20% of workers pay four-fifths of income tax. Employers pay over 30% in social-security contributions, on top of taxes paid by employees, and the tax rules keep changing. Many Hungarians game the system: the black economy may account for 18% of GDP.

Foreign investment has fallen behind levels in neighbouring countries. A high-tax regime and an unstable business environment have caused a significant fall in reinvestment of profits, says Eszter Gargyan, an economist at Citigroup. As a result, Hungary now has the lowest growth in the European Union: just 1.3% in 2007. Unemployment is 8.1%. Romania and, even more humiliating, Slovakia, with their flat-tax regimes, look more attractive.

The next election is due in 2010. Fidesz's poll ratings are almost 40%, against some 15% for the Socialists. Mr Gyurcsany, a former communist youth leader turned multi-millionaire, has a year to turn round the economy—and with it his party's poll ratings. If he fails, he may be dumped. His reputation has never fully recovered from his confession to lying about Hungary's economic problems in 2006. Not all the news is bad: the budget deficit is likely to drop from 9.4% in 2006 to 5.6% in 2007, and it may fall again this year. But the referendum has dashed hopes of more reforms, and Fidesz has the initiative. The government may suspend plans to allow private health insurers into the state system.

In short, Hungary's politicians are doing what they do best: squabbling for short-term advantage, while leaving structural problems untouched. As if to illustrate this, Slovakia, the one-time laggard turned reforming star, hopes to join the euro as soon as next year. Hungary will not get in before 2014 at the earliest.

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Slovakia's history

Textbook wars

Mar 27th 2008 | BRATISLAVA
From The Economist print edition

An intolerant attitude to a controversial history

Get article background

HISTORY textbooks are a test of a country's tolerance. Do they bristle with grudges, or do they see other countries' point of view? In Germany, for example, historians have worked successfully on joint textbooks with Polish and French colleagues.

But in Slovakia, where relations with the former imperial power, Hungary, have deteriorated sharply since 2006, the mood has swung the other way. The education minister, from the Slovak National Party, has sidelined plans for a joint history textbook. That follows a decision by Slovakia's parliament last year to endorse the Benes decrees, which legalised brutal measures against the country's supposedly Hitlerite German and Hungarian populations in 1945-48.

Shortly afterwards, Hungary's president, Laszlo Solyom, paid a “private” visit to Komarno, a majority Hungarian town in Slovakia. That infuriated the Slovak prime minister, Robert Fico, who said that “Slovaks cannot allow political representatives of Hungary to behave in southern Slovakia as if they were in northern Hungary”. The two countries have not spoken at a high level since.

Although the Hungarian minority is bigger in Romania, at least 500,000 Hungarians live in Slovakia. This reflects the fall of the Habsburg empire and the Treaty of Trianon 90 years ago, a moment of national rebirth for Slovaks, but of dismemberment and humiliation for Hungarians. Some Hungarian textbooks still call Slovakia “Upper Hungary”.

Joining the European Union, which both countries did in May 2004, was supposed to salve these wounds. “EU members cannot isolate themselves in a fabricated history,” says Attila Simon, a member of the joint historians' committee. It will produce its textbook as planned next year, along the lines of those already used in Slovakia's Hungarian-language schools.

Yet the Slovak National Party dismisses the book as the work of Marxists. As the education ministry controls textbooks and the curriculum, it has little chance of getting into classrooms. Officials insist that patriotism need not thwart reconciliation. “National pride is a necessary prerequisite for appreciation of other nations' history,” says Dusan Caplovic, the deputy prime minister responsible for minorities.

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Charlemagne

Europe makes peace with nationalism

Mar 27th 2008
From The Economist print edition

Even in a border-free Europe, everyone wants a homeland

Illustration by Claudio Munoz

NOT just Belgium, but (supposedly) the entire European Union sighed with relief this week when a new Belgian government got to work—ending nine months of squabbling among the political parties. To Euro-enthusiasts in Brussels, their host country's failure to form a government after last June's election was alarming. The argument is that Belgium matters because it is a model for Europe, with a complex federal system (the country boasts six governments and parliaments) designed to share power between three regions and three linguistic communities (Dutch-, French- and German-speakers). And if small, wealthy Belgium cannot make federalism work, how can the EU?

In truth, this is a circular argument. So what if Belgium has institutions similar to those that a federal EU might use? Being an analogy, if readers will forgive the phrase, is not the same thing as being the same thing. What really matters about fractious, multinational Belgium is that its system of government shows up a painful paradox for the EU: that compromise is needed if competing nationalities are to gain from co-operation, but that too much compromise is toxic to democracy.

A prudent Euro-federalist would resist comparisons with Belgium's rotten institutions, described by one Belgian senator as a “particracy” in which power is derived only tenuously from votes cast by the people. All Belgian federal governments are coalitions that must contain parties from both the French- and Dutch-speaking communities, who lead more or less separate lives. Some compromise is fair enough, you might think: otherwise the majority Dutch-speakers could always outvote the minority who speak French (this is certainly how Francophones present matters). But the elevation of compromise to a moral necessity has proved fatal to democratic accountability.

Last June's election shows this. It sent two clear “kick the bums out” messages. Among Flemish parties, the mushily free-market ruling Liberals lost to the mushily conservative Christian Democrats. Among French-speakers, the Socialists were given a drubbing after a string of corruption scandals. Yet after nine months of horse-trading, both defeated parties are in the new five-party coalition (this boasts 22 ministerial posts, including five deputy prime ministers). Even this is provisional. If the new government does not surrender more powers to the regions by July, Flemish separatists in the coalition could walk out, triggering a new crisis that edges Belgium a step closer to partition. Doubtless a new compromise will then be found, in another deal behind closed doors. As ever, the voters will have little power to sanction or reward their rulers for such antics.

Brussels types fret that such squabbling undermines Europe's boast to have moved beyond the grudges and resentments of ethnic nationalism. But here too the reality may be more complicated. An essay in the current issue of *Foreign Affairs* makes the incendiary suggestion that the EU has kept the peace for 60 years thanks to nationalism, not despite it. The author, Jerry Muller of the Catholic University of America, argues that the brutal genocides and forced population shifts of the 20th century helped to make peace possible. With a few exceptions (he cites Belgium as one), Europe's ethnic and state boundaries now match (ie, most Germans live in Germany, Greece is dominated by Greeks and so on). That has removed a big reason for fighting. Thus the post-war peace may not mark a defeat for ethnic nationalism, but rather demonstrates its "success". A more recent example of such success, just recognised by most EU countries, is Kosovo.

An opposite view is taken by Guy Verhofstadt, Belgium's prime minister until last week. Mr Verhofstadt once wrote a pamphlet calling for a "United States of Europe" and now plans a second book arguing that Europe is naturally cosmopolitan, and that ethno-national divisions are alien to Europe's "soul" (although he too recognised Kosovo). He is fascinated by the late 19th century, when Germans were scattered across central Europe, and Jews enriched life all over the continent. He venerates the example of Rustchuk, a city on the border between Bulgaria and Romania whose residents once spoke Ladino (a Sephardic dialect of Spanish), Turkish, Russian, Bulgarian, Romanian and German. Not any more, Mr Verhofstadt laments, before expressing the hope that a border-free EU may bring cosmopolitan Europe back to life, and end the 20th century obsession with creating "monocultural islands".

Multiculturalism rules OK

Both men should cheer up. Professor Muller is too cynical about the reasons for European peace. German contrition played a vital role, as did genuine horror at the evils done in nationalism's name. Meanwhile Europe is a lot more cosmopolitan than Mr Verhofstadt fears (now he is out of office, he should jump on the Brussels metro and see for himself).

But you can see why a Belgian moderate frets about hardliners. Every week brings a fresh example of ethno-linguistic pettiness. The latest is a row over a local council in Flanders that wants to ban toddlers from its playgrounds if they do not understand Dutch (in fairness, French-speakers can be maddening about language, too). At the European level, Belgium's reputation also suffers. All 27 EU members were recently asked for projects to make 2008 a "European Year of Intercultural Dialogue", celebrating cultural and linguistic diversity. The result was 26 national schemes plus three from Belgium, where diversity may be celebrated, but only so long as it is done equally in French, Dutch and German.

In other words, Belgium's linguistic communities pay a high price for sticking together, resorting to fudges that range from the silly to the destructive. Put like that, you can see Belgium's new government not as a relief, but as an awful warning. A political union hatched together by a fractious elite, and answerable only to itself, is not a model for anybody to follow.

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Britain and America

Anglo-Saxon attitudes

Mar 27th 2008
From The Economist print edition

Illustration by David Simonds

Our polls show the two may have less in common than they think

WHEN the half-American Lieutenant Winston Churchill stood up in a ballroom at the Waldorf Astoria in 1900 to tell New York about the Boer war, Mark Twain was the man who introduced him. No fan of either Britain's imperial war in South Africa or America's against Spain at about the same time, the writer spoke of the links between their two countries. “We have always been kin: kin in blood, kin in religion, kin in representative government, kin in ideals, kin in just and lofty purposes; and now we are kin in sin, the harmony is complete, the blend is perfect, like Mr Churchill himself, whom I now have the honour to present to you.”

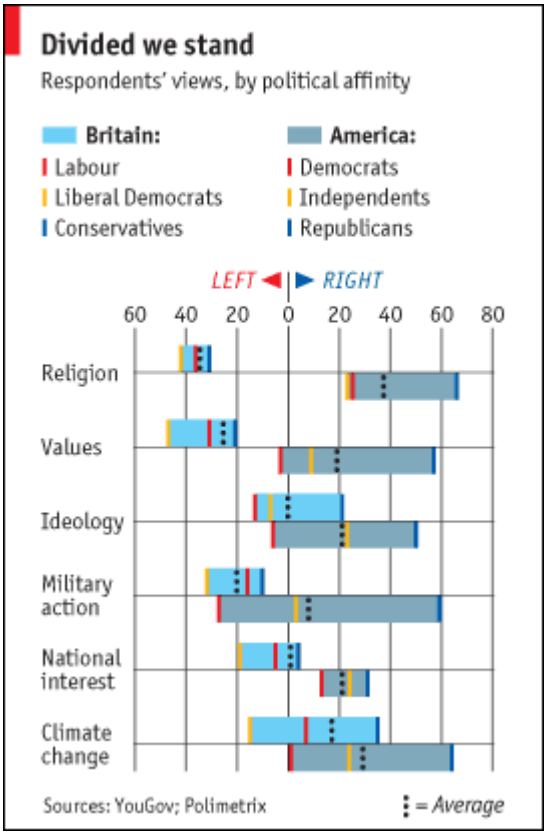
A century and an unpopular joint invasion of Iraq later, George Bush and Gordon Brown spoke in similar vein at a Camp David press conference in July 2007. The president said the ties between Britain and America represented his country's “most important bilateral relationship...primarily because we think the same, we believe in freedom and justice as fundamentals of life.” Not to be outdone in diplomatic boilerplate, Britain's new prime minister spoke of “shared values...the belief in the dignity of the individual, the freedom and liberty that we can bring to the world...”

But are these Anglo-American values really so different from those that Britain shares with other rich democracies? On a state visit to London this week, Nicolas Sarkozy, France's president, sought to rouse his hosts to a sense of their mission within Europe and to a “*nouvelle fraternité franco-britannique*”. He too spoke of common values, and, perhaps more tellingly, of shared tastes in books and music. His message was that of course both countries should work with America, but that theirs was a separate, and a shared, calling.

To turn over the supposed Anglo-American common ground more carefully, *The Economist* commissioned pollsters at YouGov in Britain and Polimetrix in America—supported by additional funds from the Hoover Institution, a California think-tank—to find out what people in both places thought about a number of social, political and economic matters. A thousand people in each country were consulted between March 7th and 11th. The full results, published here, present a nuanced picture of attitudes on both sides of the Atlantic. Broadly, however, the differences between the two countries look more striking than the similarities.

Like most west Europeans, Britons tend to have more left-wing views than Americans, but the first chart shows that this is often by a surprising margin. (“Left” and “right” are harder to

locate than they were: here “left” implies a big-state, secular, socially liberal, internationalist and green outlook; right, the reverse.) The data are derived by subtracting left-wing answers from right-wing ones, for each country and for each main political grouping within each country. A net minus rating suggests predominantly left-wing views and a positive rating suggests a preponderance of right-wing views. The specific questions underlying this summary are set out in charts on the next two pages.



The gap between Britain and America is widest on religion: no surprise there, as Britain is famously a post-Christian society and Americans are, if anything, rediscovering the faith of their fathers. But the difference in views is so wide that even British Conservatives are a great deal more secular than American Democrats are. The two are a bit closer on social values (abortion, homosexuality and so forth), and they overlap on ideology (mainly, how active the state should be), with Britain's Tories to the right of America's Democrats.

They overlap again on how free their countries should be to intervene militarily (both the Tories and Labour are more hawkish than the Democrats). Britons are more international than the Americans, keener on free trade and globalisation. Views coincide most nearly on climate change—ironically, the area where the two governments have been least in step.

These are, of course, average figures: there are plenty of American atheists and Britons who hate the state. But the chart shows another thing too. On five of the six groups of issues selected, American opinion is far more polarised than British (only nationalism seems to unite America's left and right). Gone are the days when it was British politics that embraced political extremes and Americans looked on bemused. The gap between Republicans and Democrats is almost always far greater than that between Tories and (usually) Liberal Democrats. And that is another interesting discovery: Lib Dem supporters are to the left of Labour on every broad category except the role of the state.

Such nuggets abound. Americans have a wider anti-big-business streak. Britons are cooler on multiculturalism (perhaps because they see more of it at home). Britons are more willing than Americans to curb civil liberties in pursuit of security. Americans are less keen not only on the United Nations (no surprise) but also on NATO—and more enthusiastic about the “special relationship” with Britain. If the British could choose their leader from a host of recent Anglo-American greats, they would pick Bill Clinton before Tony Blair. So would Americans, even if they may turn down his wife. Of the current presidential candidates, British Tories would vote for Barack Obama; Labour supporters prefer Hillary Clinton by a narrow margin.

Other questions elicit the more similar views that one would expect. People in both places are worried about the economic future but still bullish on chances for bright kids from poor families. They feel much the same about the death penalty: they are broadly against it. Neither group is conspicuously thrilled by the idea of a Muslim president or prime minister.

Special, but not exclusive

This is all fascinating stuff for policy wonks, and readers are enthusiastically referred to our website for more of the same. But do the differences we found matter?

They might, for the world order is changing and its components are up for review. Few agree on the nature, let alone the future, of the special relationship between Britain and America—a phrase coined by Churchill, sadder and wiser after the second world war had marked the end of one empire and the emergence of a mightier superpower. To some who expected Britain to be Greece to America's Rome, a counsellor in the weighty business of keeping order in the world, its former colony's best friend in Europe and brother in arms around the globe, reality has been a bit of a let-down. Things haven't happened quite like that, nor could they have done, given the great and growing disparity of military and economic power. But for much of the past half-century, and certainly for the past quarter, Britain and America

have mostly presented a common front on security and foreign affairs and more besides.

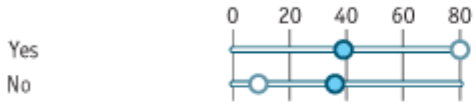
No British premier bet more heavily on the special relationship than Mr Brown's predecessor. Mr Blair flogged doggedly around the world to advance America's aims in Afghanistan after terrorists pulled off the worst attack on mainland America since Mr Blair's political forebears lost the battle for New Orleans in 1815. He paid a heavy price for committing British troops to Iraq alongside Mr Bush's, losing popularity at home and influence in Europe.

Respondents' views, by country

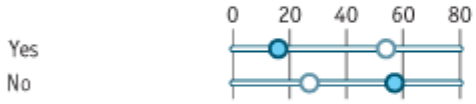
Britain ○ America

Religion

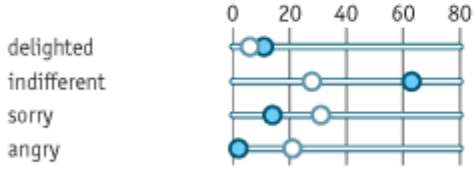
Do you believe there is a God?



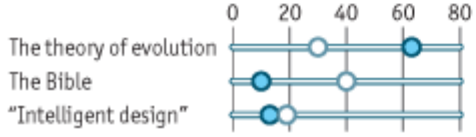
Do you believe there is a hell?



If the prime minister/president were an atheist, would you feel:

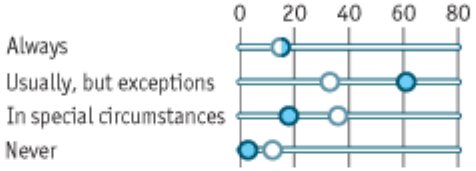


Which explains the origin of the earth?

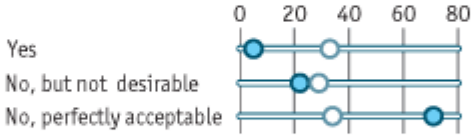


Values

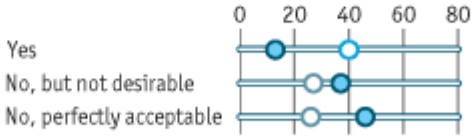
When do you think abortion should be legal?



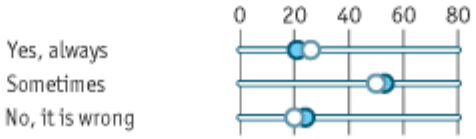
Is sex between unmarried people a sin?



Do you regard homosexuality a sin?

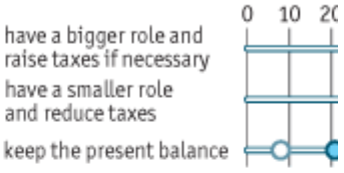


Do you favour the death penalty for murder?

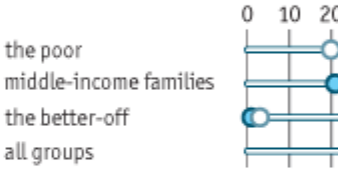


Ideology

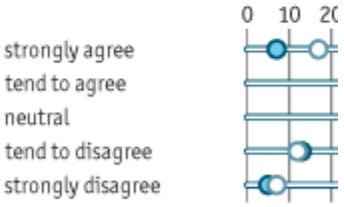
On services, the government should:



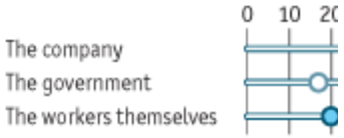
If it could, should the government re



The profit motive is the best spur to j

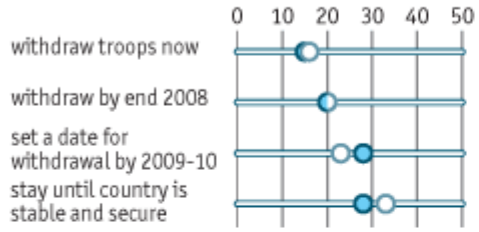


If workers are made redundant, who support them while they look for a ne



Military action

On Iraq, do you think America should: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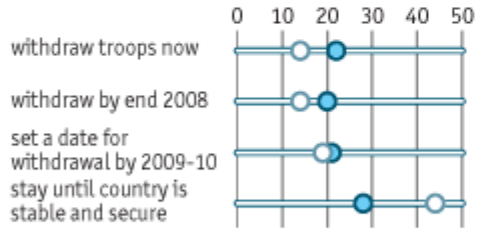
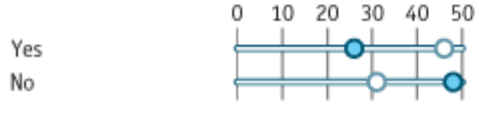
withdraw troops now
withdraw by end 2008
set a date for withdrawal by 2009-10
stay until country is stable and secure

On Afghanistan, should Britain/America:


0 10 20 30 40 50
withdraw troops now
withdraw by end 2008
set a date for withdrawal by 2009-10
stay until country is stable and secure

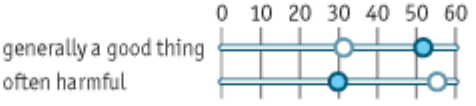
Should military action be taken, if needed, to stop Iran acquiring nuclear weapons?



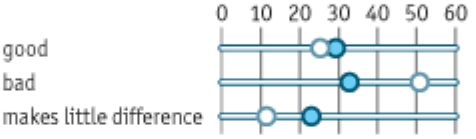
In what circumstances should Britain/America take military action against another country?

National interest

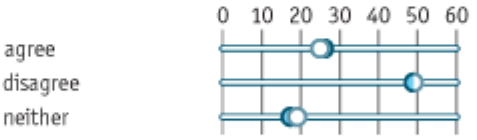
Do you think that free trade is:



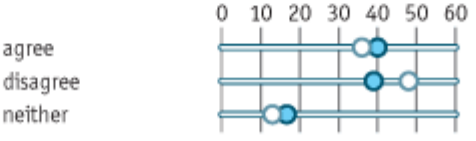
Globalisation's impact on the domestic economy is:



Immigration has helped the domestic economy grow:

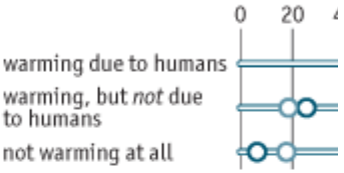


People who enter the country illegally but commit no crimes and claim no welfare benefits should be given amnesty:



Climate change

On climate change do you think the w



Would you support or oppose the fo measures to reduce global warmin

Increase petrol taxes

Increase airline fares

Increase taxes to subsidise clean en

But the notion of a distinct Anglo-American community of ideas and values goes beyond the whiff of now-defunct cordite. Free-market economics and globalisation itself are often seen by others as essentially Anglo-Saxon constructs. When the French voted against the proposed European Union constitution in 2005, it was because, some said, it risked enshrining elements of the cut-and-thrust capitalism that is rampant in both Britain and America. They preferred the continental model of social protection and cohesion, even at the cost of slower growth, to the precariousness and inequality of those countries' thriving economies.

Walter Russell Mead, an American observer of foreign affairs, maintains that America and Britain act together so often not because they set out deliberately to do so but because they frequently reach similar conclusions on their own. “The family resemblance is so strong that even our most casual acquaintances can see that we are related,” he writes in “God and Gold”, a good recent book. Ronald Reagan confessed to a feeling of “homecoming” when he addressed Parliament in 1982. Many Britons travelling in America find it more familiar than one would expect just from speaking the same language and bathing from birth in Hollywood's offerings.

So some sort of Anglo-Saxon particularity appears to exist; and complacent, even triumphant, America and Britain have urged on the rest of the world their own prescriptions: lightly-regulated capitalism red in tooth and claw at home, and military intervention where needed to promote democracy around the world. Both seem rather less than winning strategies these days. War in Iraq and Afghanistan has so far created more problems that it has solved. America's current economic woes look likely to find their worst reflection in Britain, thanks to the sophistication of global high finance in which British and American firms dominate. China and India are coming up fast as economic powers; resource-rich Russia is throwing its weight around again; and the EU, with a new operating treaty within its grasp, is emerging as a more coherent force.

Domestic political changes too are altering the old equation. Labour, in power for over a decade, is trailing the Conservative Party in the polls. Mr Bush is more likely than not to cede the Oval Office to a Democrat next year. And Mr Sarkozy is proposing a more active role for himself as partner to both Britain and America.

So what next for the Anglo-Saxon alliance? In their fundamental attitudes—regarding religion, society, the role of the state—Britons are more similar to their western European neighbours (and Canadians) than they are to the United States. In foreign affairs and security matters, however, they usually stand somewhere between the two. Even though use of the term is said to be discouraged at the British Embassy in Washington, it is certainly too soon to write off the special relationship.

Two research outfits in Washington, DC, the Pew Research Centre and the German Marshall Fund, conduct regular surveys on global attitudes. Andrew Kohut, the president of the Pew Research Centre, points out that, although enthusiasm for America has slipped since 2000, a majority of people in Britain, unlike those in the rest of the big countries in his survey, still give America a favourable rating overall: 51%, compared with 39% of French people and 30% of Germans. Americans are far warmer towards Britons (and Canadians) than towards their other allies.

In the deep divide over the use of military force that has marked America's relations with Europe since the start of the Iraq war, Britain, again, is western Europe's outlier. In polling for its 2007 Transatlantic Trends report, the German Marshall Fund found that whereas 74% of Americans believed that war is sometimes necessary to obtain justice, around 66% of Europeans thought the opposite. Britain echoed America: 59% agreed that military action may be justified in such circumstances.

But John K. Glenn, who heads the project, believes that America and Europe are nonetheless converging on some issues, principally on the threats that face them. Europeans are more alarmed than they were about Islamist fundamentalism, for example, and America is waking up to global warming. And he notes that on some questions about the use of force France is as close to America as Britain is. Welcome to London, Mr Sarkozy.

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Religion and politics

Playing God

Mar 27th 2008
From The Economist print edition

A battle to dictate to MPs' consciences

THE earliest Easter for 95 years left gardeners unable to plant their summer borders and schoolchildren dreading an endless summer term, but at least it forced the pace on a long-running political row. Catholic and Anglican bishops have been campaigning for months against government plans to update the regulation of fertility treatment and embryo research. Easter sermons provided a platform to denounce those plans from on high.

With little other news, the prelates gained a hearing far beyond their flocks. On March 25th the prime minister, Gordon Brown, conceded to their main demand: rather than having to toe the party line, as is usual on government legislation, Labour MPs will be able to vote as they wish on the three most contentious clauses.

These concern matters where social and scientific shifts have left the current law, passed in 1990, fraying at the seams. One clause would absolve fertility clinics from considering a child's “need for a father”. Anachronistic in a world where single parenthood is commonplace and gay people can form civil partnerships? Or another of a thousand cuts being inflicted on the family? A second clause would allow parents to select embryos produced during IVF to provide a close genetic match for a seriously ill sibling, in the hope of saving his life with donations of material such as blood or bone marrow. A highly moral rescue mission? Or an unacceptable commodification of the blessing of a child?

But the greatest religious ire is reserved for the third proposal: allowing researchers investigating genetic diseases to grow stem cells from embryos created by inserting human DNA (from, say, skin cells) into unfertilised animal eggs from which the original genetic material has been removed. “A monstrous attack on human rights, human dignity and human life”, thinks Cardinal Keith O'Brien, Scotland's senior Catholic, and an “endorsement of experiments of Frankenstein proportion”.

Had Mr Brown backed down earlier and declared a free vote on these matters, he would have denied the bill's opponents valuable publicity. But he had reason to resist. The new legislation was first mooted in 2004 and its passage through Parliament in this session was announced in the Queen's Speech in November. Government MPs, and ministers in particular, are generally expected to vote in favour of such core business.

Nor was Mr Brown keen to add to the ill-defined list of issues—most notably abortion and the death penalty—on which party discipline is suspended. But allowing churches, increasingly militant on matters such as admissions to their schools, to dictate what counts as a matter of conscience riled secular MPs.

In the end it was pragmatism, rather than grand matters of principle, that shifted Mr Brown. By allowing a free vote he has defanged would-be rebels and shifted attention from the misgivings of a few MPs to the substance of the bill itself. And by restricting it to only the most contentious clauses, and to the bill's first reading (when amendments are debated), he allows genuinely anguished MPs to salve their consciences without seriously jeopardising the passage of the bill itself.

That may have solved the immediate problem, but the pace of scientific advance makes further clashes inevitable. Scientists have offered to explain their work to MPs and church leaders. They may struggle to convince the latter. Reassurances that their creations are not destined to develop further towards life merely compound their sin in the eyes of the Catholic Church, which thinks destroying embryos is as great a usurpation of God's powers as creating them in the first place.

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Greyhound racing

Scarcely a cloth cap in sight

Mar 27th 2008 | WIMBLEDON
From The Economist print edition

Poor man's racing reaches out to the middle classes

AS THE lights dim at the Wimbledon dog-racing track in the cold air of a Tuesday evening, bookies shrug into their overcoats and peer past their boards of hastily scrawled odds. Behind them young men shuffle on the terraces before erupting into a hubbub as six lithe dogs, mouths open and tails curved daintily, race towards the finish line. Seconds later it is all over. Some turn to collect their winnings, while others filter into the warmth in search of drinks and hamburgers.

This is no Royal Ascot—Britain's most famous race meeting—with its Pimm's, canapés and thoroughbreds. Dog-racing has a humbler past than the sport of kings. Aristocrats began it by setting greyhounds after hares, but its popular roots lie in the coal-mining towns of the 1920s. Working men kept and raced whippets, which were small enough to live in the house and could also catch rabbits.

Its real growth, however, was linked to gambling. In the 1920s and 1930s dog-racing offered one of the few chances for poor people to place bets legally. Greyhound tracks were cheaper to get into than racetracks and closer to town centres too. Attendance peaked in 1936 at 38m; only football attracted more fans.

Yet these days the sport seems, as it were, to have gone to the dogs. There are more opportunities to gamble, for one thing. Since betting laws were relaxed in 1963, gambling has moved off tracks and into local betting shops: attendance at dog races fell to 3.3m in 2006. And dog-racing has an image problem. Mintel, a market-research firm, says it is seen as down-market at a time when most people are coming to think of themselves as middle class.

But there is hope. A few yards from the terraces is a bustling restaurant where neat young professionals place bets from their tables between courses. Dog-racing's bosses hope to appeal to the better-heeled folk whom horseracing has drawn in, and to the advertisers and sponsors who have made sports such as football so lucrative.

The plan may be working. Crowds increased at 11 tracks where the owners invested in new facilities. At Wimbledon Darren Kennedy, an enthusiastic manager brought in from the pub trade, reckons 1,000 are now coming on a typical Tuesday night, up from 700 a year ago.

Other sports have leapt the class divide. Two decades ago only the bravest of the middle classes went to football matches, which were rough, crowded affairs. Now, with season tickets at top clubs costing upwards of £700 ($1,400), many working men can afford to watch the national game only in pubs. “Greyhound racing has to do what soccer—and even my own dear Labour Party—has had to do: shed its cloth-cap image and attract a more prosperous constituency,” says Lord Lipsey, the chairman of the British Greyhound Racing Board. “It has taken a while, but we are getting there.”

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Northern Rock

Who regulates the regulators?

Mar 27th 2008
From The Economist print edition

Heavy-handed bank supervision may do no better

SINCE the world's banks sailed into the sea of troubles that swamped Northern Rock last summer, regulators have intensified their scrutiny of those still afloat, looking carefully for holes below the waterline. But some wonder whether the guardians of the world's financial system are themselves shipshape. Refreshingly, on March 26th Britain's main banking regulator, the Financial Services Authority (FSA), released a surprisingly frank report on its own manifold shortcomings in supervising Northern Rock.

The review covers the 31 months before the mortgage lender came to grief, and it makes for grim reading. It suggests that the FSA is a plodding referee around which wily bankers danced. Worse, the report implies that the FSA struggles with even the most basic functions, such as keeping records of meetings.

As well as eschewing note-taking, the FSA drastically underestimated the risks facing Northern Rock. It viewed with equanimity the bank's plans to increase its lending by 15-25% a year, even though most of that growth was to be funded by flighty wholesale markets. Because it had decided the bank was in good shape, the FSA barely bothered watching it. Northern Rock's supervisors held just eight meetings with their charges between January 2005 and the bank's eventual failure in September last year.

The FSA's self-examination concluded cheerily that its lax treatment of Northern Rock was at the “extreme end of the spectrum”, suggesting that it watches most other firms more closely. It proposed sensible reforms, such as requiring its staff to spend more time talking to the banks they look after, as well as hiring more regulators. Yet, valuable as such changes would be, they would not address some of the deeper failings at which the report hints.

Supervision of Northern Rock seems to have been kicked hither and thither. In 2005 and the first half of 2006, the team responsible for it was reporting to a department that looked after insurance groups. That team was then moved twice, so supervising Northern Rock was the responsibility of three different departments in less than three years.

Little wonder, then, that senior managers in the FSA were not keeping tabs on their nomadic underlings. Nor did they listen when the team did raise some mild concerns. When junior staff proposed a relatively relaxed monitoring regime for Northern Rock that would have seen it formally assessed every two years, their bosses on the main risk committee overruled them, saying that it should be looked at every three years instead.

Such internal chaos reflects external instability. The FSA has spent most of its short life reinventing itself. Its intense introspection has made it a leading authority on risk-based regulation (spending most time on those firms deemed to pose the biggest risk) and principles-based regulation (which does away with detailed rule books). Yet amid the excitement it seems to have forgotten the less glamorous (but still essential) parts of its job.

Another reason for the FSA's failures could be that it struggles to keep good staff. Ian Mason, an ex-regulator who now works for Barlow, Lyde & Gilbert, a law firm, reckons that many of the people considered “experienced” bank supervisors at the FSA have worked there for just two or three years. Keeping people of even such limited experience is a challenge, he says. Many might be earning £50,000-70,000 a year, which is probably a quarter of what they could get by moving to private firms.

In a world in which big financial firms were allowed to go broke, many of these flaws would matter little. Regulators could refine grand principles of regulation while bankers devoted their efforts to outwitting them, in the knowledge that failure would cost them their jobs and their shareholders their money. The

bail-outs of Northern Rock and, more recently, Bear Stearns suggest that such a world may no longer exist, if it ever did. That will make calls for tougher regulation hard to resist. Yet the FSA's poor showing in relation to Northern Rock should give pause for thought. Writing more rules may do more harm than good if the regulator is unable to enforce them.

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The war on smoking

Ash and ruin

Mar 27th 2008
From The Economist print edition

The clampdown tightens. How much harder will life get for smokers?

IT IS cruel that a country with such dreadful weather should forbid smoking indoors. But since July, when lighting up in enclosed public places was banned, British smokers have had to huddle in the rain. Other measures, including banning advertising and raising the minimum smoking age (to 18) and the tax on cigarettes (which now quadruples the price of a packet), have made Britain more hostile to tobacco than any other country in Europe, according to the European Network for Smoking Prevention, a coalition of stubbers-out.

Despite such strictness, some 22% of British adults smoke daily—low by world standards, but higher than in many rich countries, including America, Canada and Australia. So the rules are to get tougher still. On March 24th the Department of Health suggested that cigarette vending machines, a favourite source of tobacco for the under-age, could be banned. And shops might have to sell cigarettes under the counter, to keep them out of sight and mind—and, possibly, to add a little shame to buying them.

Will it help? Only Iceland, Thailand and some parts of Canada ban shop displays (Ireland will soon follow suit), so there is little evidence. One Australian study suggested that quitters could hold out for longer if they didn't see the forbidden packets every time they went shopping. Neil Rafferty of Forest, a pro-smoking lobby, wonders if hiding the variety of brands might make it harder for smokers to switch to milder options. As for vending machines, why not make them credit-card operated, if the aim is to deter under-18s? “It has nothing to do with protecting children and everything to do with making smokers feel bad about themselves,” Mr Rafferty suspects.

They will soon feel even worse. From October, cigarette packets will carry gruesome pictures of tarred lungs as well as the current warnings. A ban on smoking while driving has been suggested. In February an advisory panel recommended that smokers should have to buy a permit before lighting up, though that seems unlikely to go ahead.

Demand has taken a pummelling; supply is next. A bill before Parliament will toughen sanctions for selling to minors; Amanda Sandford of ASH, an anti-smoking lobby group, would like to see sales restricted to licensed tobacconists, as in much of Europe. Supplies brought back from holiday could be cut too, she says: currently tourists can import as much as they like from some countries, as long as they can convince customs officers they are for personal use.

A bigger problem, Ms Sandford reckons, is smuggling. Britain's high taxes create a large black market: up to 18% of British cigarettes may be contraband, cheating the tax man of some £2.3 billion per year. Customs officers are cracking down and have promised better results still—after all, new laws will change little if old ones are easily circumvented.

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Constitutional reform

Easy does it

Mar 27th 2008
From The Economist print edition

The government's latest package of reforms is too cautious for some

IN A week when Britain was rated by Jane's, a military-analysis firm, as the seventh most stable country in the world (the Vatican came first), tinkering with its ancient and inscrutable constitution might not strike outsiders as a particular priority. But reform has long been thought necessary, not least by Gordon Brown, the prime minister.

On March 25th Jack Straw, the justice secretary, announced the draft Constitutional Renewal Bill, nine months after Mr Brown kicked off his premiership with a green paper on the issue. Proposals include restricting the role of the attorney-general, currently an odd mix of independent adviser and cabinet participant, as well as removing the influence of the prime minister and Lord Chancellor over judicial appointments. The main aim, however, is to beef up Parliament.

Since taking power in 1997 the government has been transforming the way Britain is governed—devolution to Scotland, Wales and Northern Ireland all took place in its first term, as did the passage of the Human Rights Act and abolition of most hereditary members of the House of Lords. Yet Tony Blair, the previous prime minister, was not particularly animated by constitutional reform, a cause he inherited from John Smith, his predecessor as Labour leader. Mr Brown, by contrast, has a long-standing enthusiasm for it. Still dogged by a reputation as a control-freak, he also has a political interest in being seen to give power away.

Unfortunately for the prime minister, many agree with the opposition that the bill is timid. A proposal that Parliament must vote on whether troops are committed to war is hardly radical: Mr Blair held a vote before the Iraq war and it would be politically difficult to go to war without one in future. Mr Straw held out the prospect of giving MPs greater say over public appointments and the date of general elections, but details are yet to emerge. Other ideas, such as restoring the right to protest outside Parliament and allowing the Union flag to be flown on government buildings at any time, are mostly symbolic.

While experts are unimpressed, voters are confused. Some constitutional matters (such as the imbalance between England, which has no devolved body of its own, and the smaller nations, which do) resonate with many. But a poll released on March 27th by the Hansard Society, a think-tank, showed that the two constitutional issues least understood by voters are Parliament's powers and reform of the House of Lords. It also showed that more people are satisfied than not with the government's power to decide when general elections happen. And though 75% believe that a strong Parliament is good for democracy, 60% think government should be given the powers to carry out its mandate.

Yet the idea that British politics needs fixing is not misplaced; trust in politicians is low and roughly 40% of the electorate abstained at the last two general elections. Labour wants to avoid being outflanked by the Tories and the Liberal Democrats—both talk periodically (if nebulously) of fostering “a new kind of politics”. But though incremental reform is very much the way of the British constitution—“not every idea can be a blockbuster”, says one minister—the government will eventually have to take a clearer position on big-ticket items such as House of Lords reform and changing the voting system. Both are floated by ministers from time to time, only to be kicked into the long grass.

Public mistrust can be addressed in other ways, too. On the same day that the bill was unveiled, the House of Commons appealed against a ruling allowing the publication of expenses claimed by 14 current and former MPs, including Mr Brown himself. Richard Thomas, the information commissioner, had said that the expenses, which relate to MPs' second homes, should be released under freedom of information laws but the Commons authorities argue that this could compromise those MPs' security.

This case, which now goes to the High Court, follows recent revelations about the allowances that are available to MPs to furnish their homes, and the misuse by a Tory MP of his parliamentary office budget.

Strengthening Parliament could do much to restore the public's faith in the institution; cleaning it up could do even more.

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Bagehot

The history boy

Mar 27th 2008
From The Economist print edition

Illustration by Steve O'Brien

The increasingly bearable lightness of being George Osborne

POLITICS is a mysterious business. After a long run of bad decisions and worse luck, Labour was until recently only a few points down in the polls. Since most members of the political class are poor historians—apparently believing that governments are only deposed in landslide election defeats—David Cameron, the Tory leader, was under pressure. Suddenly his lead has stretched into double figures; no one knows precisely why. But a big part of the explanation sits, scowling, at Mr Cameron's right hand in the House of Commons. George Osborne, the shadow chancellor, personifies the way the Tories' weaknesses have morphed into strengths—and the risks they still face.

One of those weaknesses is, or was, Mr Osborne's background. Heir to a baronetcy, he is at least as posh as Mr Cameron, and less good at shmoozing the proles. Since one of the Tories' real historical burdens is a reputation for not knowing, or caring, how the other half live, all that poshness once seemed problematic. But a dogged effort to look compassionate, plus the rise of “aspiration” as a touchstone issue, have neutralised the toffiness. The Tories now say, and some in the Labour Party fear, that ongoing class sniping by some cabinet members makes Labour's leadership look retrograde and desperate. (A better criticism of Mr Osborne is that he has had absolutely no career outside politics—except that several ministers have equally narrow CVs.)

As well as being posh, Mr Osborne is young (36) and looks it. He sometimes sounds as if a sadistic prefect had grabbed him by the goolies. He is also clever, in a double-edged way: among other things, he is good at thinking up nasty putdowns. His relationship with Alistair Darling is less poisonous than it was with the previous chancellor, Gordon Brown; still, he couldn't resist claiming in Parliament recently that he had “almost lost the will to live” while Mr Darling was speaking. He has strayed close to unholy glee over some of the government's travails.

As the seventh shadow chancellor since 1997, Mr Osborne evidently felt that, to survive, he needed to behave like a new inmate in a prison yard, or perhaps a defiant first-former in a particularly vicious boarding-school house. But the japes and one-liners, along with his age, at first made him seem mischievously slight. They also called into question the key quality that any shadow chancellor needs to project, especially if he wants to lure voters from the known quantity of an incumbent government at a time of economic gloom: sober judgment.

Yet even some of his opponents concede that Mr Osborne has matured since taking on the job in 2005 (youthfulness, meanwhile, has rapidly become almost obligatory in aspiring leaders). He has honed a

critique of Mr Brown's failure to shore up the public finances during Britain's fat years. More than his short-lived predecessors, he has also developed a plausible and politically sensible macroeconomic policy of his own. He hopes, but does not promise, to reduce the overall tax burden; yet he accepts the size, if not the shape, of Labour's spending plans for the next three years at least. Less than a year ago the Tories looked doomed, and Mr Osborne's position vulnerable. Now he and Mr Cameron are ahead in the polls on economic management. Their new challenge is to prevent a party that is mutinous in failure from becoming equally bolshy when it is succeeding.

The dauphin's dauphin

When Mr Brown moved into Number 10, there was a lot of talk about the perils of underestimating him. As it turned out, perhaps out of a sort of reverse snobbery, Labour underestimated Mr Cameron and especially Mr Osborne, who in fact is a rather good historian. Despite his tender years, he is a veteran of serial election defeats; he has a swingometer and a map of marginal constituencies etched on his brain. He used them to powerful effect at last year's Tory conference, when he announced the flashiest of the assorted fiddles he has proposed within his overall tax policy: to abolish inheritance tax for estates below £1m ($2m), a wheeze that helped put off the election Mr Brown was planning. (Mimicking it, the government also adapted Mr Osborne's plan for a levy on non-domiciled foreigners—adding endless rancour to the shame of its plagiarism.)

That speech was a defining moment in Mr Osborne's career. But it left him with a problem. The many in his own party who thrill only to the swishing of fiscal axes drew two awkward lessons. One was that aggressive tax-cutting is indeed the path to power—another historical delusion, which even the last two failed election campaigns seem not to have dispelled. The other was that Mr Osborne was the man to guide them down it. Rumours of a split with Mr Cameron over fiscal policy have swirled: as with Masonic conspiracies, denying that the split exists seemed only to fuel the speculation. Lately the rumours have given way to angry disappointment. Frank talk among some of Mr Osborne's colleagues about the upward pressures on spending has made the mob even crosser.

From their close study of New Labour, Mr Osborne and the other Cameroon historians know that maintaining unity at the top is a genuine prerequisite for winning power. Whether the Tories can do it now hangs largely on Mr Osborne's own discipline. He has also become the focus of an even bigger question. He may be right that promising to swing the tax axe in the current circumstances would be rash. But then what exactly would an Osborne chancellorship—and a Tory government—be for?

He probably has two years to work up a compelling pitch. Still, managing expectations is part of a shadow chancellor's role. Before the 1997 election, Mr Brown prudently but (in his own party) unpopularly pledged to abide by Tory spending plans during Labour's first two years in office. Mr Osborne may not like the analogy, but it has one encouraging and perhaps prophetic aspect: Mr Brown eventually inherited the top job.

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Economist.com WORLD INTERNATIONAL

Famine, farm prices and aid

Food for thought

Mar 27th 2008 | NEW YORK
From The Economist print edition

Soaring prices for products like rice (see article) and wheat are causing headaches for aid agencies and politicians

Getty Images

FOR years, anti-poverty campaigners railed against low commodity prices, which depressed farmers' incomes in developing countries. In recent months, the world price of virtually all staples has shot up, but the activists are still not cheering. They worry that this boom (intensified by “green” subsidies for biofuel crops) may worsen poverty even more than low agricultural prices did.

High food prices do help poor farmers, but they also hurt the more numerous category of people (poor city-dwellers as well as landless rural folk) who must buy food to survive. That “unintended consequence”—in the words of Gawain Kripke of Oxfam International, a British charity—has caused serious problems for the organisations that bring food aid to the poorest. The World Food Programme (WFP), a UN agency, has just issued an urgent appeal for $500m, to cover higher food costs. America's Agency for International Development (USAID), a huge financer of food aid, is asking for $350m.

The short-term outlook seems grim, both for the poor and the agencies that supposedly help them. Even before the current price boom started two years ago, food aid was running at historically low levels, perhaps half the real-terms total of two decades earlier. And the WFP says hunger is on the rise in the countries it watches. It classifies as “hotspots” the places—most of central Africa, plus Afghanistan—where more than a third of the people do not get as much food as is needed. A second tier, where between a fifth and a third lack adequate food, includes much of West Africa, the Indian sub-continent and Bolivia. David Kauck of CARE, an American charity, says that pockets of real hunger also exist in many rich countries.

Dismal as all this sounds, there are some grounds for hope. Today's woes may lead to fundamental changes for the better in the world's approach to hunger and food shortages. And not before time, in the view of experts who see something crazy about the way many food-aid efforts are now conceived and executed.

One mistake, arguably, is the very idea of defining the main problem as massive hunger, and hence the solution as providing food by any means necessary. “There is simply no shortage of food,” insists Rachel Nugent of America's Centre for Global Development. Of course, there are places—like North Korea or Darfur—where political (and in some cases ecological) factors cause an intense local shortage of food. In those cases, insists Josette Sheeran, head of the WFP, food aid is the only option. She also fears that the

world is getting less resilient in its ability to respond to a growing number of food emergencies.

But leaving aside those extraordinary events, most pundits, including Ms Sheeran, agree that the world now has plenty of food: last year saw a record cereal harvest. And the investments spurred by today's high prices promise even more food in future. Even if one allows for rising demand from Asia's middle classes, the real challenge is not the volume of food available; it is the problem of food being in the wrong place and at a price the poorest cannot afford. Michael Hess of USAID adds that famines are made inevitable by poor governance, not natural disasters. After all, “America has droughts, but not famine.”

Moreover, hunger as such is the wrong target, says Meera Shekar of the World Bank. Hunger is transient and hard to measure, but malnutrition, she notes, is a pernicious killer (with lack of food as only one contributing variable). She points out that South Asia, which has plentiful food, suffers from twice the level of malnutrition as crisis-prone sub-Saharan Africa.

The snag is that tackling malnutrition is harder than sending bags of grain. It means fixing health systems, improving the delivery of nutrients in the food chain, educating people about hygiene and other unpopular and unprofitable jobs. Small wonder, then, that this burdensome task has fewer political cheerleaders.

Oxfam's Mr Kripke holds out hope that today's price shock may yet “help fix a broken system”. The United States, in particular, monetises food aid in a bizarre way. Tax dollars are used to buy food in America, which is then sold by charities in poor-country markets to fund development. Christopher Barrett, an economist at Cornell University, calls this “a clever way to turn a dollar of taxpayer money into 50 cents for a non-governmental organisation to spend.” The requirement that most food aid must be sent on American ships raises costs, and benefits just a few shippers.

Change may be coming. Over the objections of some tough lobbies, George Bush has proposed fixing some of the distorting aspects of America's food policies. The president has called for more emphasis on procuring produce from local farmers in poor countries. And in a bold gesture, CARE has said it will no longer accept any American government donations using the monetisation approach.

Most encouraging are some proposed changes at the WFP. Ms Sheeran hopes to persuade her board at a meeting in June to shift her agency's focus away from emergency food aid and towards a wider remit. She wants to expand its role in surveillance, stockpiling and risk-insurance. She also speaks of targeting subsidies or vouchers “in ways that complement markets rather than distort them”, as current subsidies often do. If this sort of clarity prevails, it would be a silver lining on the dark cloud that now looms over the poor.

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Rice and politics

Needed: a new revolution

Mar 27th 2008 | BANGKOK
From The Economist print edition

How bad policies crimp exporters

THE soaring price of rice and dwindling stockpiles of Asia's basic food are causing anxiety across the region. In particular the Philippines, a big, hungry country which cannot grow enough to feed itself, could be in trouble. The front pages of Manila's newspapers scream about a "rice crisis", as politicians float drastic solutions, such as forcing the country's 100 leading firms to take up rice farming. Farmers in Thailand, the world's largest rice exporter, are delighted with the price surge, although some were said this week to be organising patrols to protect their crops.

The president of the Philippines, Gloria Macapagal Arroyo, last month pleaded with Vietnam, the second-largest exporter, to guarantee supplies. The two countries signed an agreement on March 26th, apparently to do just that. But the various escape clauses that Vietnam secured suggest it was more of a face-saving measure than a firm pledge. Vietnam and India, another big rice exporter, have recently announced export restrictions to try to curb soaring food prices at home. This will make it tough for poor, rice-importing countries, in Africa as well as Asia, to secure supplies.

Until a few years ago, rising harvests satisfied the growth in rice demand caused by population growth and Asia's success in cutting poverty. But recent wobbles in output have reversed a long-term trend of falling prices. They have also left global stockpiles at their lowest since the 1970s.

Political consequences may follow. Mrs Arroyo came to office in a "people-power" revolt in 2001 and her grip on office is tenuous. Hunger could be the excuse the opposition needs to bring Filipinos to the streets. So Mrs Arroyo is straining to be seen doing something about food: posing for photos at grain warehouses and pledging to crack down on the fiddling of subsidised rice supplies.

Indonesia's president, Susilo Bambang Yudhoyono, had hitherto been expected to sail to re-election next year. But costly food and rising poverty may endanger him. That Mr Yudhoyono made a show of completing a doctorate in agricultural economics during his 2004 election campaign only increases his potential for embarrassment. He has tinkered with, not abolished, Indonesia's absurd restrictions on rice imports. These, like the Philippines' rice import tariffs, were intended to protect poor rice farmers when prices were low, but they hurt poor rice eaters, a larger group.

This week a senior Indonesian official said the country had reached its goal of becoming self-sufficient in rice. Mr Yudhoyono later contradicted this, by saying Indonesia would need to continue importing Thai rice for now. Even if Indonesia attains self-sufficiency soon, it will be hard to maintain. The Philippines became self-sufficient in the 1980s, only to relapse into deficit, despite an expansion in its paddies.

Nature affects countries' ability to grow rice—but so does governance. An extreme case is Myanmar. Once it was the world's biggest rice exporter, and it still produces a small surplus. Yet many of its people go hungry, thanks to a crude, cruel regime.

Robert Zeigler of the International Rice Research Institute—a driver of Asia's "green revolution" in the 1960s—says governments are now paying for years of neglecting agricultural research and irrigation. They have lost prime land and water supplies in the rush to industrialise.

Simply reducing disparities in productivity, even between identical fields in a given district, could solve

Asia's rice worries for decades to come. That would require, for instance, ensuring farmers can buy higher-quality seeds, which in turn would require more funding from governments for old-fashioned things such as cross-breeding existing strains of rice.

A report this week from the UN's economic commission for Asia said a boost in farm productivity could lift more than 200m Asians, a third of the region's poor, out of poverty. Asia's masters may need a new green revolution, if they want to avoid upheavals of a bloodier hue.

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Nuclear weapons

Just how low can you go?

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From The Economist print edition

Numbers shrink and attention wanders

Get article background

SCARCITY usually drives up value, but not in the nuclear-bomb business. At the height of the cold war, with tens of thousands of missiles on hair-trigger alert and the world perpetually poised for Armageddon, a stint in the nuclear chain of command was a fast track to military promotion. Now global warhead stockpiles are at their lowest for almost 50 years, and the career-making military action is elsewhere. In a sign of the times President Nicolas Sarkozy vowed last week to trim France's *force de frappe* to under 300 warheads, half its maximum cold-war tally.

The residue
Nuclear warheads

	Early 1990s	Present	2012
United States*	9,680	3,575	1,700-2,200‡
Russia*	10,996†	3,340	1,700-2,200‡
Britain	260	<160	Similar
France	538	348	<300
China	100-200	Up to 200	Building more capable ones
India	*na*	50-60	Building more
Pakistan	*na*	30-50	Likely to build more as India does
Israel	100-200	100-200	Similar
Iran	none	Presumed 2-10 years from a nuclear capability§	
North Korea	Possibly 1 or 2	Up to 10	Supposedly giving them up

*Strategic warheads †Soviet Union
‡Allowed under Moscow treaty §Current estimate
Sources: *Bulletin of the Atomic Scientists*; International Institute for Strategic Studies; Stockholm International Peace Research Institute

Keeping the deterrent up but warhead numbers down puts France in line with America, Russia and Britain (see table). Of the five recognised powers, only China is thought still to be adding to its arsenal. But whether it is building up numbers, or just replacing older missiles, is anyone's guess.

America and Russia have thus far anchored their weapons cuts in treaties, though they disagree over what should replace the Moscow treaty that will bring each side down to 1,700-2,200 deployed warheads by 2012, and also over future counting rules. Russia had originally suggested a limit of 1,500 by 2012. Others say 1,000 warheads each is easily enough to keep the peace, and for America to extend a nuclear umbrella over its allies.

Both keep a lot more warheads in reserve than are officially counted. America is now dismantling some of these more quickly; Russia has a backlog of thousands. George Bush is lobbying Congress, so far to no avail, to be allowed to develop a “reliable replacement warhead”—a more robust and simpler weapon, based on a tested design. The RRW, say supporters, would allow far deeper cuts in America's hedge of weapons kept for reserves and spares (for a stockpile whose average age is now 24 years).

As American and Russian numbers fall, the smaller arsenals of Britain, France and China loom larger. Britain, which last year decided to modernise its Trident-based nuclear deterrent but cut the number of operational warheads to below 160, has never ruled out joining future arms-control talks. The other two won't rule it in.

Neither Britain nor France yet shows any inclination to give up the bomb as a weapon of last resort (and hence leave the other as Europe's sole nuclear power). Both cite proliferation fears (North Korea's 1996 nuclear test and suspicions about Iran's nuclear intentions, plus the unofficial arsenals of India, Pakistan and Israel) as reason not to disarm unilaterally. Instead both are pushing for ratification of the Comprehensive Test-Ban Treaty (America and China have signed but not yet ratified); and for talks on a treaty to end the production of fissile materials for weapons. Moves in that direction have been blocked by Pakistan, Iran and China.

Other nuclear risks grow. America has spent billions helping Russia with security at its nuclear depots. But nonchalance at home last year enabled a B-52 bomber to fly 1,400 miles with six nuclear-armed cruise missiles strapped under its wings in place of dummies. The firings and demotions that followed that gaffe look set to be repeated; the air force has found, 18 months late, that it wrongly sent four electrical fuses for nuclear warheads to Taiwan instead of requested helicopter batteries. The cold war had mishaps, but having everyone on alert had its benefits too.

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Rainforests

Racing to hug those trees

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As UN efforts to save the forests grind on, a range of alternatives is on offer

Get article background

NEXT week the United Nations will convene yet another meeting to debate a successor to the Kyoto protocol, its treaty on climate change. As usual, there will be long discussions about how to preserve forests, since deforestation accounts for about a fifth of all greenhouse-gas emissions. The new treaty, which is due to come into force in 2012, is supposed to include incentives for “reducing emissions from deforestation and degradation” (REDD, in the jargon). But many conservationists and financiers won't wait: they are devising tree-saving ideas of their own.

The basic outlines of REDD are clear. Rich countries will pay poor ones to keep their forests intact. In return, the rich will get credits that they can put towards their emissions-reduction targets under the new climate treaty. But the details are much murkier: there is little agreement about what sort of project would qualify, or how to calculate the emissions averted.

One solution is to ignore the UN altogether. A scheme called Plan Vivo, for example, channels money to villagers in Mexico, Mozambique and Uganda who pledge to protect nearby forests or plant trees. External inspectors verify that the projected reductions in emissions have been achieved and Plan Vivo then issues a corresponding number of credits to the original donors. The UN does not recognise the credits, and Plan Vivo itself admits that it can't guarantee that the trees will not be cut down in the distant future—although it insists it is very conservative in its estimates of emissions reductions. Most buyers are organisations that are offsetting emissions on a purely voluntary basis.

Others are hoping that such voluntary credits might eventually gain UN approval. Merrill Lynch, an investment bank, recently announced a plan to preserve a huge swathe of forest in the Indonesian province of Aceh. It will help finance the provincial government's efforts to enforce forestry laws more strictly and provide alternative livelihoods for those cutting trees illegally, in exchange for the right to sell a share of the carbon credits generated by falling levels of deforestation. Initially, Merrill plans to sell the credits on the voluntary market. But it is hoping that the rules will change so that it can sell credits for compliance with UN obligations—a bigger and more lucrative trade.

Another project, unveiled on March 27th, seems more speculative, unless (in two senses) people buy into the argument that climate change and other ecological woes will soon be so dire that the need to encourage anything that works will be obvious to everybody. A British outfit called Canopy Capital is betting that many of the natural functions of the Iwokrama rainforest in Guyana—such as storing carbon, generating rain and protecting wildlife—will in due course be worth something. It has agreed to make payments towards the protection of the forest, in exchange for a share of the rights to the “ecosystem services” it provides. Guyana is open to such ideas: President Bharrat Jagdeo made a dramatic offer last year, saying that on the right terms he would cede his country's entire forest to stewardship by outsiders. The new project also reflects a hope that private initiatives to cool the world will act as a spur to a slow inter-governmental process; there may not be time for things to work the other way round.

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After Bush

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From The Economist print edition

AP

America's foreign policy may change under the next president, but confusion over Iraq, worries about overstretch and divisions over the country's role in the world will remain, says Adrian Wooldridge (interviewed here)

THE most striking spectacle of America's election season has been the sight of crowds of up to 20,000 cheering Barack Obama. Mr Obama never has any trouble summoning up applause, but he gets his most heartfelt response when he turns to foreign policy. He reminds his supporters that he opposed the Iraq war from the start. He insists that America should be focusing on al-Qaeda rather than Iraq. And he pledges that he will begin to withdraw American troops from Iraq as soon as he becomes president.

Hillary Clinton, his rival in the nail-biting fight for the Democratic nomination, lacks Mr Obama's silver tongue, and is handicapped by having voted to authorise the invasion of Iraq in 2002. But she, too, can work the crowd into a frenzy when she talks about foreign policy. She promises that she will begin to withdraw American troops from Iraq within 60 days of becoming president, and accuses George Bush of pursuing one of the most disastrous foreign policies in American history.

To John McCain, the Republican nominee, this is all dangerous nonsense. Mr McCain argues that withdrawing from Iraq would spell disaster for the Middle East and humiliation for America. He reckons that America needs to stay in Iraq, in some guise, for a hundred years—and accuses Mr Obama of peddling the empty hope of a “holiday from history”.

When it comes to foreign policy, there really are two Americas. The divisions are at their sharpest over Iraq, but they extend much further. Should America put the “war on terrorism” at the heart of its foreign policy or treat it as just one concern among many? Should America bomb Iran or allow Iran to get the bomb? Should it negotiate with its enemies or wait for them to mend their ways?

From hero to zero

These deep divisions are the legacy of a man whose name will not appear on the ballot in November. Mr Bush came to power promising anything but a bold foreign policy. He styled himself as a new kind of conservative—a “uniter rather than a divider”—and surrounded himself with foreign-policy heavyweights.

Dick Cheney was a hard-headed realist who had opposed toppling Saddam Hussein when he was defence secretary during the first Gulf war (asking “how long would we have had to stay in Baghdad?”). Colin Powell was known for his caution about using force—either go in big or don't go in at all—and for his enthusiasm for working with allies. Condoleezza Rice was a dyed-in-the-wool realist who had famously

observed that the 82nd Airborne's job description did not include escorting kids to school.

During his campaign Mr Bush pledged himself to pursuing a humble foreign policy, an “American foreign policy that reflects American character. The modesty of true strength. The humility of real greatness.” He contrasted his approach with the Clinton administration's “arrogance” which had “undermined American alliances, alienated friends and emboldened our adversaries”.

Inevitably, all this changed on September 11th 2001. That tragedy initially united America in common grief and in a common determination to root out al-Qaeda. But Mr Bush's policies eventually replaced what he called “the warm courage of national unity” with bitter division.

Good and evil

Mr Bush responded to the terrorist attacks with striking boldness, based on his conviction, formed within hours of the attacks, that America was engaged in a “war on terror”. America would make no distinction between terrorists and the people who harboured them. It would remain on the offensive, working with friends if possible and alone if necessary. And it would tackle the root causes of terrorism—the Faustian bargain between Middle Eastern autocracies and radical Islam. The former frat boy saw himself as bringing “firm resolve and clear vision and a deep faith” to a global struggle between good and evil.

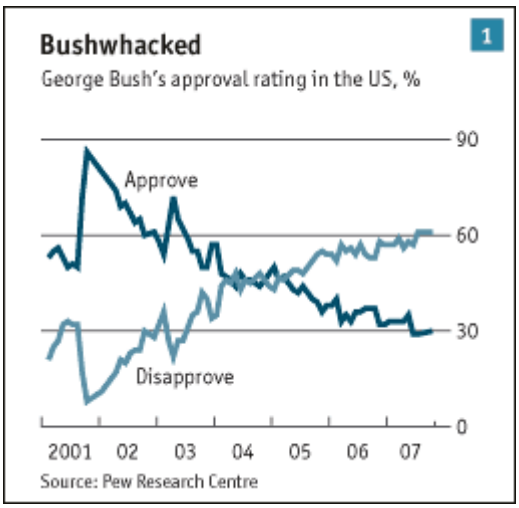
Mr Bush combined his visionary approach to foreign policy with a hard-edged style of governing. He embraced the Washington partisanship that he had denounced as a candidate, pushing through a wish-list of conservative measures, most notably tax cuts. But he also did something that was new in foreign policy: he turned the “war on terror” into an instrument of partisan advantage with the aim of building an enduring Republican majority.

At first this dual strategy of assertiveness abroad and bare knuckles at home worked well. The invasion of Afghanistan was a triumph. Less than 18 months later the American army took Baghdad in a mere three weeks. In the 2002 mid-term elections the Republican Party increased its majority in the House and captured the Senate. Two years later Mr Bush won re-election with more votes than any previous presidential candidate.

Yet the price was heavy. Whereas September 11th had brought America together, his decisions to invade Iraq and to turn the “war on terror” into a partisan issue relentlessly divided the country. Democratic opposition to the war gathered strength with the insurgency in Iraq and exploded into fury as it became clear that Saddam Hussein's regime had neither weapons of mass destruction (WMD) nor close ties to al-Qaeda.

The opposition to the war eventually spread beyond the Democratic Party. And public unhappiness about the Iraq debacle has turned into much broader unease about American foreign policy. Mr Bush's foreign policy has turned its author into one of the most polarising presidents in American history. At home he is about as popular as Richard Nixon at the depths of the Watergate scandal (see chart 1); abroad he is seen as a war-mongering buffoon.

His policy has also left an astonishingly difficult legacy for Mr Bush's successor. Some 160,000 American troops are struggling to contain an insurgency in Iraq at the cost of $300m a day, not to mention thousands of American and tens of thousands of Iraqi lives. Things are better than they were, thanks to the “surge” of extra American troops last year, but Iraq remains a shattered nation, beset by terrorism, a civil war and a failed apparatus of state.



The rest of Mr Bush's “axis of evil” is still in place. North Korea has a nuclear bomb. Iran is still bent on acquiring nuclear capabilities and is expanding its regional influence. Hamas and Hizbullah are thriving. The Taliban is reviving in Afghanistan. Following the assassination of Benazir Bhutto and an election that brought a resounding vote of no confidence in the president, Pervez Musharraf, Pakistan remains strife-ridden. Al-Qaeda is still a coiled cobra.

On the face of it the presidential election will give America the best chance it has had to resolve its internal disagreements about American foreign policy. The two versions on offer could hardly present a clearer choice. But the task will be much more difficult than it appears. A Democratic president will have to weigh huge domestic pressures to bring the troops home against the danger of creating regional chaos in Iraq. Withdrawing troops too suddenly could bring catastrophe in the region and political humiliation at home. Jimmy Carter's failure in Iran destroyed his presidency and helped to sideline the Democrats as a political force for a decade. Does a future Democratic president want to risk a similar debacle?

Mr McCain will face a reality test of his own. He is nothing if not stubborn; nobody survives five-and-a-half years as a prisoner-of-war in Vietnam without a steely will. He has happily picked fights with all and sundry, including his own party. For example, he was one of the leading critics of the Bush administration on torture. He also cares deeply and personally about national security. He risked political suicide by supporting the “surge” when his party looked as if it was willing to soften on the Iraq war.

But even a man who proudly describes himself as a “son of a bitch” cannot buck public opinion. The American public has turned sharply against military assertiveness, so Mr McCain's hawkish instincts on foreign policy are hurting his chances of winning the White House. And even if he can pull it off, he will have a tough time of it: both houses of Congress will almost certainly have bigger Democratic majorities.

This is not to say that things will stay much the same when Mr Bush leaves. American foreign policy has already changed in important ways during the second Bush administration. The president has abandoned some of the hubris and bellicosity of his first term and put more effort into reaching out to allies and working with multilateral institutions, as well as giving more attention to the Palestinian problem. The next occupant of the White House, of whatever political stripe, will push American policy still further in that direction—perhaps adding some grand gestures such as closing down the military prison at Guantánamo Bay or embracing global warming as a priority.

Beyond the war on terror

Most importantly, the next president will want to broaden American foreign policy from its preoccupation with the “war on terror”. The Olympic games in Beijing this summer will remind Americans of China's growing economic might, at a time when America is nervous about its own economic performance and faces powerful protectionist pressures at home. Russia's growing authoritarianism and assertiveness is also bound to pose a big strategic problem.

Even so, the issues that dominated the Bush presidency will not go away. Defeating radical Islam will remain a mainspring of American policy. Al-Qaeda still seems determined to inflict massive casualties on America's civilian population. It is still powerful and continues to pursue biological and even nuclear weapons. The president's first job is to protect the American people from attack, so al-Qaeda will remain an overriding worry.

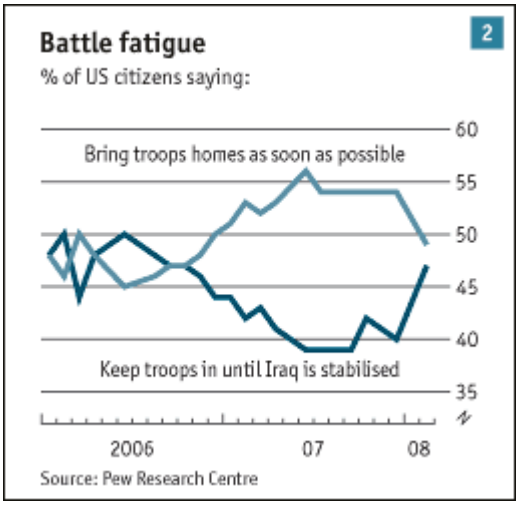
A Democratic president might bring a change of strategy to the “war on terror”, with less martial rhetoric and a shift of focus from Iraq to Pakistan and Afghanistan. Mr Obama is saying that America should be fighting terrorism (but in Iraq it has chosen the wrong battlefield). He has expressed his willingness to go after high-value al-Qaeda targets in Pakistan without the permission of Pakistan's government, something that Mr Bush refused to do. The Bush administration itself is already toning down its rhetoric and trying harder to work with local elites and use non-military tools. There would be more of this under a Democratic president.

Whoever wins, America's foreign policy will continue to be bedevilled by three problems that Mr Bush has had to contend with. The first is partisanship at home. America will remain deeply divided about how to deal with radical Islam. Conservatives believe that this is the defining struggle of the age, whereas liberals see it as a hysterical response that will only add to the problem.

A Democratic president could find such partisanship particularly difficult to manage. The president will come under enormous pressure to bring America's troops home (see chart 2). He or she will also be expected to pursue a more conciliatory policy in the wider Middle East. But what happens if these twin goals prove difficult to reconcile? The president might be attacked from the left for selling out and from the right for not going far enough.

The second problem is that America disagrees with the rest of the world over dealing with the Middle East and radical Islam. Even

under a Democratic president America will take a harder line than Europe on al-Qaeda, Iran, Pakistan and Palestinian militants. And even in a sunnier diplomatic climate Europe will be reluctant to do more in Iraq or Afghanistan. Europe's elites are not rallying to America's side as they did during the cold war.



The third difficulty is that America is simply not devoting enough resources to dealing with the “war on terror”. The army is severely overstretched. The Department of Homeland Security is a mess. The intelligence agencies have failed to adjust to the new threat from terrorism. America's schools and universities are not churning out nearly enough Arab-speakers.

Some commentators regard the war with extreme Islamism as the natural successor to the cold war—world war four, in the phrase of Norman Podhoretz, a prominent neoconservative. But Americans are far more polarised over foreign policy than they were in the days of the cold war, and many are not prepared to devote large resources to dealing with the terrorist threat. The grand certainties of the Bush doctrine are being replaced not by a new consensus but by growing confusion about what to do about terrorism and how to weigh that threat against the other strategic problems America is facing.

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Can the Bush doctrine last?

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Reuters

How not to do it

Not in its present form, but nor will it disappear altogether

THE Bush doctrine is America's first attempt at a grand strategy since the end of the cold war. It consists of five interlocking parts:

• America is at war with global terrorism. This war demands that America deal with state sponsors of terrorism as well as terrorist networks.

• Attack is the best form of defence. America needs to act pre-emptively to prevent threats from materialising.

• America needs to preserve its freedom to act independently. Global bodies are too slow-moving to deal with terrorist threats.

• Success breeds success. The bold use of American power will encourage potential friends to join America and potential enemies to abandon their evil ways.

• The best solution to global jihadism is to export democracy. America needs to abandon its deals with authoritarian regimes and encourage democracy the world over.

This strategy drew on the powerful emotions provoked by September 11th, not least the shock of vulnerability. America has been blessed by geography, protected by two oceanic moats and supported by two friendly neighbours. With the end of the cold war it looked as if it had been blessed by history as well. Then September 11th proved that a band of fanatics from a faraway country could strike at the very heart of American civilisation.

Yet despite this sense of vulnerability, Americans were also conscious of their country's vast power. The world's only remaining superpower had more military might than the 20 next most powerful countries combined. Surely all this raw power could eliminate the threat from terrorist networks and rogue states?

The Bush doctrine has been scorched in the flames of Iraq. Pre-emption? Iraq's WMD failed to materialise, and the links between al-Qaeda and Saddam's regime proved to be tenuous at best. Attack is the best form of defence? The invasion stoked up a powerful local insurgency, and America's travails in Iraq have emboldened the Iranians. The bandwagon effect? America's close allies have tried to distance themselves from the debacle in Iraq and the jihadists have got a foothold there.

The Iraq war has damaged America's confidence in its hard power. The Bush administration overestimated the threat from Saddam and underestimated the difficulty of invading an Arab country. The administration went in with too few troops, despite Colin Powell's dire warnings, and failed to plan for the occupation. Intended to demonstrate the awesomeness of America's hard power, the Iraq war exposed its limitations.

It also damaged America's sense of itself as a virtuous country, so benevolent and well-intentioned that it does not have to abide by global rules. The photographs of prisoner abuse in Abu Ghraib shocked America as much as the rest of the world. A stack of naked prisoners piled on top of one another, a man with a hood over his head perched on a box and connected to electrical wires—how to reconcile these images with America's mission to bring democracy to a benighted land?

Nor was this just a matter of a few rogue guards behaving badly. Mr Bush's critics point to many official decisions that mocked America's claim to virtue, from the dismissal by Alberto Gonzales, then America's attorney-general, of the Geneva Conventions as “quaint” to the Central Intelligence Agency's rendition of prisoners to countries that practise torture and the military prison at Guantánamo Bay.

Philip Gordon, of the Brookings Institution, a think-tank, argues that the past six years have exposed the weakness of two ideas at the heart of the Bush doctrine: the “war on terror” and the “democracy agenda”. Mr Gordon (who, as it happens, advises Barack Obama), argues that the “war on terror” amounts to both poor analysis and poor strategy. It is poor analysis because it lumps together diverse threats that are often rooted in local squabbles. Radical Islam is divided into warring camps; Sunnis and Shias are engaged in a bitter power struggle, for example, and Iran and al-Qaeda are sworn enemies. It is poor strategy because the “war” forces these enemies together and prevents America from exploiting internal rivalries. The war metaphor also forecloses too many strategic options, favouring the use of force when co-operation with local leaders might be more productive.

Mr Gordon also has reservations about the democracy agenda. Democratisation can play into the hands of Islamic extremists such as Hamas (which has won Palestinian elections) and Hizbullah (which enjoys powerful popular support in Lebanon). And America's strategic interests in the Middle East may require it to preserve good relations with Sunni autocracies such as Saudi Arabia.

Mr Gordon's reservations are widely shared. A Public Agenda poll in 2006 found that only 20% of respondents agreed that spreading democracy to other countries was a “very important” goal of American foreign policy. The Bush administration itself no longer seems to support the doctrine in full. Mr Bush has sacked or sidelined many of the people who were most closely associated with it, such as Paul Wolfowitz, John Bolton, Douglas Feith and Donald Rumsfeld. In the summer of 2005 the administration even rechristened the global war on terror to become the global struggle against violent extremism.

Shortly after the 2004 election Mr Bush went to Brussels to repair relations with the Europeans. Condoleezza Rice, his new secretary of state, emphasised the importance of diplomacy and multilateralism. She negotiated with the North Koreans. She also moderated her emphasis on promoting democracy. Having endorsed democratic reforms when she visited Egypt in 2005, she was silent on the subject on a return visit two years later.

A rose by another name?

And after the next election? In some recast form, the Bush doctrine might prove to have a surprising amount of life in it. Mr McCain is not exactly a neoconservative, but he is an assertive American nationalist who believes in wielding American power, facing down rogue states and, to some extent, spreading democracy. He has even been known to sing “bomb, bomb Iran” to the tune of “Barbara Ann”.

An incoming Democratic administration would undoubtedly dispense with a doctrine that bears the name of the reviled Mr Bush. But even under the Democrats two of its key components—pre-emption and democratisation—will remain as policy options. Most of America's wars over the past couple of centuries have been of the pre-emptive kind. Mr Obama promises to “use force, unilaterally if necessary, to protect the American people” from imminent threats.

As for democracy-promotion, it is as American as apple pie. The great achievements of modern America's foreign policy are the democratisation of Germany and Japan after the second world war and the defence of democratic Europe against Soviet totalitarianism. America has helped to introduce democracy in much of central and eastern Europe, nearly all of Latin America, much of East Asia and even some of Africa.

And there is an appetite for American democracy-promotion among oppressed people around the world. The protesters in Beijing's Tiananmen Square in 1989 created a “goddess of democracy” that looked like the Statue of Liberty.

The doctrine will thus remain in the repertoire of foreign policy. A dramatic incident such as a terrorist attack or a provocation from a rogue state might well bring it back to life. It draws on some deep currents in American thinking, from national assertiveness to democratic idealism. And if polls are any guide, even after the debacle of the Iraq war it continues to command the support of more than a quarter of America's population.

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The Democratic surge

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The relentless rise of the Democrats will make a big difference to foreign policy

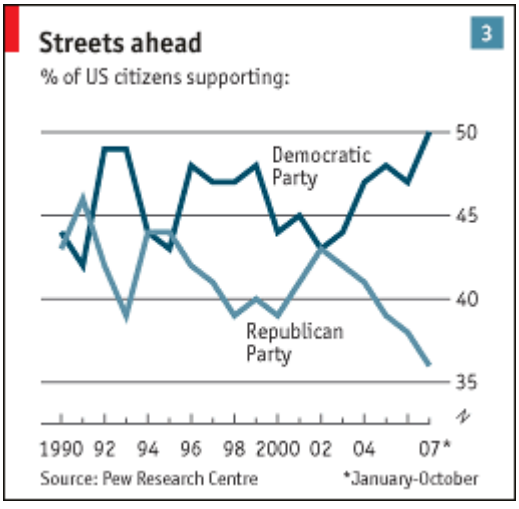
ON THE morning after the 2004 presidential election it looked as if the age of an enduring Republican majority had dawned. Mr Bush had not only won re-election with more votes than any previous president; he had become the first president in 70 years to win re-election while increasing his party's majorities in both houses. Two years later he received what he called a “thumpin” in the mid-term elections, with the Democrats winning control of both houses of Congress along with six governorships and 321 state legislative seats. The Democrats defeated six incumbent senators and picked up 30 House seats.

There were lots of reasons for the Republicans' dismal performance: the inept handling of Hurricane Katrina, the out-of-control federal spending, a spate of ethics scandals, the pandering to the Christian right. But at the heart of it was Mr Bush's foreign policy.

The war in Iraq undermined the Republican Party's strongest electoral claim: that it was best equipped to keep America safe. In a CBS News/*New York Times* poll, only 29% of those questioned approved of Mr Bush's handling of Iraq. The Iraq war also set public opinion against the Bush presidency in general. In a *Newsweek* poll, 58% thought that the administration had deliberately misled the American people about Saddam's WMD.

The anti-Republican tide remains as strong as it was in 2006. Five years ago support for the two big parties was evenly divided, with 43% each. Today the Democrats lead by 50% to 36% (see chart 3). Americans at present regard Democrats as more competent by a margin of five to three and as more ethical by a margin of two to one. The generation of Americans who came of age in 2000-05 identifies itself with the Democrats by the largest majority recorded for any age group since polling began.

The Democrats will almost certainly strengthen their hold on Capitol Hill in this year's election. In a USA Today/Gallup poll last December, 53% of Americans preferred Democratic control of Congress. Twenty-one House Republicans plan to retire from politics at the end of this Congress. The figure for the Democrats is two.



The Democrats are even better placed in the Senate, an institution that has a particularly important role in shaping foreign policy. The Republicans are defending more seats than the Democrats (23 against 12), and more “open” seats where the incumbent is not running (five against none). They are also defending seven seats in Democratic-leaning states. This may allow the Democrats to increase their majority from one now to perhaps seven or eight. So the Senate will either strengthen the hand of a Democratic president or frustrate a Republican one.

The presidential race is much more difficult to predict because of the importance of personality and chance. A gaffe in the presidential debates or the discovery of a personal indiscretion could turn everything upside down. But the Democrats are well placed to take the White House. Recent polls have shown a 24-point preference for a Democratic president—a lead unheard of since Watergate. Mr Obama and Mrs Clinton have been drawing monster crowds. Mr McCain often finds himself addressing the local rotary club.

A different view of the world

Democratic voters view foreign policy very differently from Republican ones. Iraq is a prime example.

Only 27% of Democrats support keeping troops in Iraq, according to a recent poll by the Pew Research Centre, compared with 81% of Republicans. A mere 36% of Democrats think that America is making progress in Iraq with defeating the insurgency, compared with 80% of Republicans. Only 39% of Democrats reckon that America has not gone far enough in protecting itself from terrorist threats, against 56% of Republicans. Only about half as many Democrats as Republicans (39% against 74%) believe that it is right to conduct surveillance of suspected terrorists without a court order. And a similar proportion (39% against 73%) believe that the government's treatment of the inmates at Guantánamo Bay is fair.

Hostility to the Iraq war, and wider worries about the excesses of the “war on terror”, are particularly strong among the Democratic base: the people who vote in primaries and do much of the legwork in the general election. The Bush years have seen the rise of a Democratic counter-establishment set up largely in opposition to Mr Bush's assertive foreign policy. Groups such as MoveOn.org (which opposed the invasion of Afghanistan as well as Iraq) and internet sites such as DailyKos and the Huffington Post are becoming an increasingly important source of funding and opinion and can make life difficult for Democratic politicians who are seen to “betray” the party.

Both Mr Obama and Mrs Clinton have been careful to preserve as much wiggle room as possible, particularly on what “withdrawal” of American troops from Iraq actually means. But the resurgence of the Democrats will nevertheless have a profound influence on the direction of American foreign policy, given the party's strong disagreements with the Bush doctrine. Congressional Democrats have been working hard to bring American troops home from Iraq: in a debate on Mr Bush's surge last year, 229 Democrats but only 17 Republicans voted to condemn it.

So an incoming Republican president would be constrained by powerful Democratic majorities on Capitol Hill, and an incoming Democratic president would be under strong pressure from his or her core supporters to put much more emphasis on negotiation than on force. Presidents enjoy a great deal of freedom in policymaking, but they ignore the views of their most reliable supporters at their peril.

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Terror not China

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From The Economist print edition

Getty Images

The place to look for al-Qaeda

The next president will still focus on the same problems as Mr Bush. But some of the answers may change

IT IS hard to think of a more miserable way of spending your life than running for American president. Dialling for dollars. Hanging out in diners in Iowa and New Hampshire. Glad-handing people you will never meet again. Living on aeroplanes and in hotels. Getting by on four hours' sleep a night. Delivering the same stump speech ad nauseam.

And what do you get for all that misery? A heap of trouble. America is bogged down in Iraq, the Taliban is resurgent in Afghanistan and Iran is flexing its muscles, Russian nationalism is on the rise once again and China is getting increasingly bolshy. America's problems seem to be multiplying at the same time as its ability to deliver results is waning.

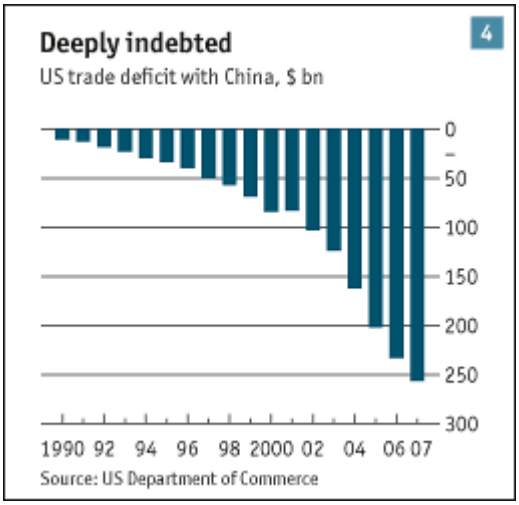
Russia is becoming increasingly anti-American as well as increasingly autocratic. It is convinced that America is trying to surround it with military bases, worried that NATO is advancing to its borders and determined to become great again. It has resumed the cold-war practice of flying military missions over the North Pole. It has engaged in a cyberwar with Estonia and used its oil and gas supplies to bully its neighbours. It has also shown an increased willingness to thumb its nose at America (for example, by selling military equipment to Syria and Venezuela) and to form anti-American alliances, particularly with China and some oil-rich Central Asian states.

At the same time America is getting more anxious about China's growing economic might. Anti-Chinese sentiment in America is already strong. Democrats in Congress are preparing to hammer China over counterfeit goods, product safety and exchange-rate policy. The media have been a-twitter with stories about poisoned pet food, tainted toothpaste and lead-painted toys. America's trade deficit with China has been rising relentlessly (see chart 4). Many critics argue that China is trying to cheat its way to economic success, keeping its currency artificially low to give Chinese products an unfair advantage, creating barriers to keep out American goods and allowing producers to operate largely outside the law.

America's Sinophobia could be magnified by the Beijing Olympics in August. There will be lots of reports on China's breathtaking economic growth, Beijing's stunning new buildings, the $400m national stadium and the efficiency of Beijing's airport. And the Chinese will win lots of gold medals.

America, in short, will come face to face with a country that might become its greatest rival in the 21st century. Although some of the forecasts are over the top, China's economic growth is

certainly remarkable; and economic growth is inevitably accompanied by growing political clout. China has replaced America as the largest source of imports for Europe, Japan and South Korea.



Human-rights activists point to China's abuses at home, its repression of Tibet and its habit of cosying up to nasty regimes in countries such as Iran, Sudan, Burma and Venezuela. Environmentalists say that, by some measures, China is already the world's largest producer of greenhouse gases. Neoconservative hawks reckon that China has been supersizing its defence spending over the past decade (and China itself admitted to a budget increase of 18% this year). But the country is so important that the next American president will have no choice but to do business with it.

America's relations with Russia are likely to get even cooler than they are now. The days when people speculated that the twin departures from office of Vladimir Putin and George Bush might help to improve relations have long gone. Mr Putin is determined to hold on to power from whatever post he occupies. Russia is furious about America's ambitions to extend its missile shield. America is furious about the way that Russia uses the superpower's problems in the Middle East to extend its own influence and forge anti-American alliances. Russia's increasing assertiveness is underwritten by the inflated price of oil and a growing nationalism.

Many foreign-policy analysts argue that the next American president should pay much more attention to Russia and China, as well as to the shift in economic power from the developed to the developing world. But in practice American politics will continue to be dominated by the greater Middle East. This is because American attention is inevitably concentrated on the regions where its troops are fighting, and sometimes dying; because the consequences of a botched policy in that area are so serious; and because the American public is deeply divided about what to do about Iraq and beyond.

Mr Obama or Mrs Clinton will be under huge pressure to wash his or her hands of Iraq. The anti-war left has set clear and ambitious goals for bringing its forces home. It wants to redeploy all 160,000 troops in Iraq within 18 months of the next president taking office, though a few might remain in the region to deal with al-Qaeda. But this is a high-risk strategy. American withdrawal might produce a cascade of problems. The precarious Iraqi state might collapse. The civil war could intensify as various sectarian groups smell victory. Iran could step up its involvement and produce a counter-push from Saudi Arabia and other Sunni states. The redeployed American forces might be too small to deal with terrorism or prevent a regional conflagration. The outflow of refugees might overwhelm fragile states in the region.

Redefining victory

A better approach would be to “define victory down” while rethinking Iraq's role in the “war on terror”. The Bush administration has always insisted that Iraq is the front-line in that war. And in his 2007 state-of-the-union address Mr Bush set a high bar for victory in Iraq: “A democratic Iraq that upholds the rule of law, respects the rights of its people, provides them security and is an ally in the war on terror.”

A Democratic president's best chance of success would be to redefine what America is trying to do in Iraq rather than bring the troops home as quickly as possible. Carlos Pascual and Kenneth Pollack, of the Brookings Institution, offer a sensible blueprint for a future Iraq stategy that emphasises the importance of containing the spillover from the mess there. They argue that America should keep 50,000-80,000 troops in the country but redeploy them away from population centres. Another 20,000-30,000 should remain in the region to provide logistical support. At the same time America should create buffer zones and safe havens.

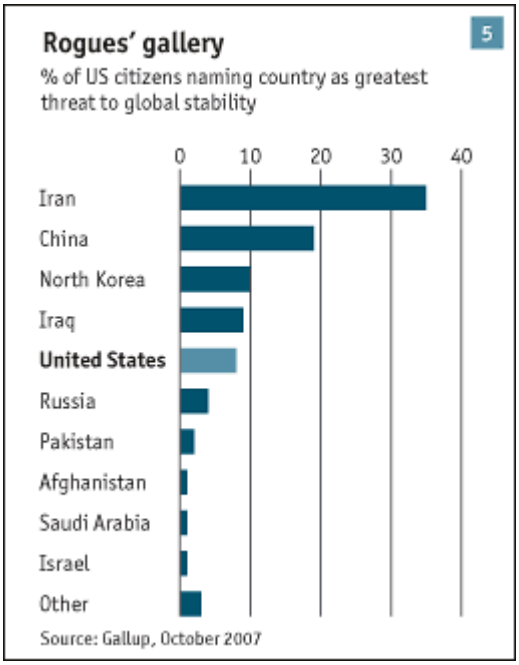
If Mr McCain were to become president, he would also be well advised to restrain his instincts and redefine America's mission in Iraq. He would need to accept that the original justifications for the war—Saddam's weapons of mass destruction and his close ties with al-Qaeda—have proved illusory, that America has wearied of the war and that the American military machine is weakening. Otherwise he would be in danger of becoming the second Republican president in a row to see his administration destroyed by Iraq.

The next president could enjoy more room for dramatic initiatives on two related fronts: Iran and Israel-Palestine. Mr Bush's second administration was marked by an intense battle between hawks and doves over Iran. The hawks, led by Mr Cheney, advocated a military strike to disable Iran's suspected nuclear-weapons programme. The doves, led by Ms Rice, argued for strong multinational sanctions to rein in Iran's regional ambitions and dissuade it from proceeding with building a bomb.

The National Intelligence Estimate published last December (and representing the considered view of 16 intelligence agencies) concluded that Iran, although it had definitely been working on developing a nuclear bomb, had stopped several years ago. This changed the debate on Iran and all but ruled out a military strike. It also put Mr Cheney and his hardline allies on the defensive. Still, it did not let Iran off the hook.

The Israeli and French intelligence services cast doubts on the assessment. American hawks pointed out that the CIA has a pretty dismal record of judging threats, and that Iran's peaceful nuclear programme could put the country just a turn of a screw away from getting a bomb. Many European countries remained keen on maintaining sanctions.

The next administration might well make significant changes in America's policy towards Iran. Mr Obama talks about the possibility of dealing with the country directly. This, in the best of all possible worlds, could be the basis of a grand bargain in which each side decides to back down a little to avoid an explosive confrontation. The Iranians have sometimes signalled flexibility on Israel, and they deny wanting nuclear weapons. A deal might be possible if America was willing to drop sanctions, forget about “regime change” and recognise Iran's regional security interests. Both countries have certain strategic interests in common, notably preserving a united Iraq under its current Shia-dominated government and maintaining the free flow of Gulf oil to world markets; and both recognise that they have a lot to lose.



Diplomatic overtures to Iran might be linked to a renewed push for progress on the Palestinian question. Mr Bush has been unusually resistant to investing political capital in this particular problem. He has also been unusually sympathetic to Israel, even by American standards. But a meeting in Annapolis in November 2007 laid the foundations for renewed diplomacy in the region, and the next president is likely to devote more energy to the problem than Mr Bush has done.

That said, the odds are still against strategic breakthroughs on either front. The Israel-Palestine question has frustrated would-be peacemakers for as long as it has been around. And Iran's foreign policy has been defined by hostility to America since the 1979 revolution. The country has a long history both of meddling in the wider region and breaking international rules, and the Americans have found it even harder to deal with since Mahmoud Ahmadinejad was elected president.

The “war on terror” will remain a principal element of American foreign policy. The September 11th attacks were the most traumatic events on American soil since Pearl Harbour, and it seems clear that al-Qaeda and its allies are determined to strike at the American mainland again. No president can afford to give the impression of being soft on al-Qaeda.

All the same, the Democrats would try to shift the front-line, talking less about “war” and putting more emphasis on non-state actors rather than state sponsors of terrorism. Mr Obama has spoken of “getting out of Iraq and onto the right battlefield in Afghanistan and Pakistan”. He has a great deal of support for such a shift from the American national-security establishment and from the wider world.

Mr McCain continues to talk about a war against “radical Islam” and the “moral monsters” that it is spawning. He still regards Iraq as the central front in that war. But even he would find himself under intense pressure to change America's policies. Most of the intelligence establishment in Washington, DC, thinks that the real front in the fight against al-Qaeda is Pakistan and Afghanistan, not Iraq. The July 2007 National Intelligence Estimate argues unequivocally that the organisation posing the gravest threat to the United States is al-Qaeda, and that this threat radiates outwards from the organisation's secure hideouts in Pakistan. The Bush administration as a whole is already using a much wider range of

instruments to deal with terrorist threats than its earlier rhetoric implied.

So for all the problems with Russia and China, the 44th president will probably find himself or herself concentrating on much the same range of problems as the 43rd: Iraq, Iran, Pakistan, Afghanistan, Israel-Palestine and the broader “war on terror”. The Muslim world is too volatile and the threat from al-Qaeda too immediate for a wholesale shift in the direction of the president's energies.

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Power and peril

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Eyevine

The fog of an under-resourced war

The American eagle is feeling less confident and more vulnerable

FOUR years ago “empire” was the *mot du jour* in Washington, DC. Dick Cheney's 2003 Christmas card bore the motto: “And if a sparrow cannot fall to the ground without His notice, is it probable that an empire can rise without His aid?” One of Mr Bush's senior advisers dismissed criticism from the “reality-based community”. “That's not the way the world really works any more...We're an empire now, and when we act, we create our own reality.” Neoconservative intellectuals published articles with titles such as “The Case for American Empire”.

What a difference a bungled war makes. These days the word “imperial” is usually followed by “overstretch”. The bookshops are full of titles cautioning against the folly of empire (Cullen Murphey's “Are We Rome?”, Amy Chua's “Day of Empire”). Nobody doubts America's unparalleled ability to project its military power into every corner of the world, but blowing things up is not the same as establishing an “imperium”.

Enthusiasm for empire has been replaced by worries about exhaustion and vulnerability. Americans are concerned that the army has been stretched to breaking point, and that their country remains a terrorist target. If George Bush wanted to “fight them over there” so that Americans do not have to “fight them over here”, his successor will have to face the possibility that, in fighting them over there, America has overstrained its army while leaving the home front vulnerable.

Oiling the military machine

One of the first things he or she will have to do is make sure that the military machine does not break down. The armed forces are under intense strain, largely because of the Iraq war. Deployments have got longer and redeployments more frequent. Retention rates and recruitment standards are going down. Divorce rates in both the army and the marines have tripled since 2003. Soldiers resent having to bear the entire burden of a war of choice while the rest of the country carries on as usual. Colin Powell has given warning that “the active army is about broken.”

The army is losing its best and brightest. West Point, the alma mater of American generals going back to Ulysses S. Grant, has seen a relentless rise in the number of officers who leave at the earliest opportunity. Whereas only about 35% of the West Point class of 2000 had quit after five years, for the class of 2001 the proportion rose to 46% and for the class of 2002 to 58%. Retention problems are particularly severe among captains and majors with 11-17 years' experience—the potential future

military leaders. The army currently has only half as many senior captains as it needs, and forecasts that it will suffer from a shortfall of 3,000 captains and majors (out of a cadre of 52,000) until at least 2013. The maximum age for recruits has been raised to 42, and fitness and educational standards have been lowered.

The strain on the military reserves—citizen-soldiers who are deployed to deal with crises ranging from domestic disasters to overseas wars—is particularly acute. So far America has deployed more than 500,000 reservists in Iraq and Afghanistan, where they have made up as much as 45% of the uniformed forces. Every National Guard combat brigade has been deployed at least once, and many specialists a number of times. So America has precious few reservists to deal with either a terrorist attack at home or an unexpected threat abroad.

All the presidential candidates acknowledge that the country needs to boost military spending and increase the size of the army. This is Mr McCain's bread and butter. But even the left-leaning Mr Obama wants to increase the number of soldiers and marines by 100,000. The American armed forces remain stuck at their post-cold-war low point yet have a lot more work to do.

The next president will also have to make strategic choices. What are the lessons of the Iraq war? Should America pour more money into boots on the ground or concentrate on high-tech warfare? Was Iraq a one-off aberration or a harbinger of the future? And how much more effort should be devoted to domestic security?

The home front

Since September 11th America has made Herculean efforts to improve domestic security. It has undertaken the biggest departmental reorganisation since the second world war by creating the Department of Homeland Security (DHS), and has increased spending on homeland security by more than 300%, to over $40 billion a year. Most air travellers' luggage is now screened. Cockpit doors on aircraft have been strengthened. Thousands of armed air marshals fly the friendly skies. Millions of doses of antibiotics and smallpox vaccine have been stockpiled to guard against biological weapons.

The absence of further terrorist attacks in America since September 11th suggests that all this may be having some effect. Mr Bush claims that America has prevented several planned al-Qaeda attacks. Unlike many European countries, America is also fortunate in not having a large alienated Muslim population. But none of this means that the country is safe. The jihadists regard America and Israel—the big Satan and the little Satan—as their prime targets. They are determined to follow September 11th with something spectacular, and they believe that America will not be able to tolerate large-scale casualties.

The DHS's abysmal response to Hurricane Katrina revealed its lack of preparedness for a future attack. The department is a bureaucratic mess. In May 2007 a quarter of the department's executive jobs and a third of the jobs in its intelligence department remained unfilled. In a survey of 36 government departments the DHS ranked last in job satisfaction, second to last in leadership and 33rd in talent management.

America's defences have also been undermined by a tendency to treat homeland security as another form of political pork. Huge amounts of money have been spent on out-of-the-way places that face little risk of attack. Security is often tighter in small city airports than in the big hubs. America's list of potential terrorist targets includes a petting zoo, a popcorn factory and an annual parade of mules.

The next president has to do better than this. America needs to concentrate on strategic targets such as power stations rather than spraying money around. It also needs to staff vital jobs on the basis of merit rather than political connections.

Still, even the best-run security system has its limits. Michael O'Hanlon, of the Brookings Institution, points out that the country has more than 500,000 bridges, almost 500 skyscrapers, nearly 200,000 miles of natural-gas pipelines, more than 2,800 power plants and thousands of shopping malls, all of which are potential terrorist targets.

The most valuable weapon in this sort of asymmetrical warfare is intelligence. America has subjected the intelligence services to their biggest shake-up since the second world war and poured money into intelligence-gathering. America currently spends $44m a year on its civilian intelligence services.

Some of this effort has been worthwhile. The new 400-strong National Counter-Terrorism Centre (NCTC) co-ordinates America's counter-terrorism effort, drawing on the resources of all 16 intelligence agencies. But America has nevertheless erred badly in refusing to do what all other rich countries do: create a dedicated domestic intelligence agency rather than expect the FBI to do both police and intelligence work.

The wrong culture

September 11th revealed the foolishness of this arrangement. The FBI's intelligence division put up an appalling performance, failing to act on information about foreign terrorists operating on American soil and to share that information with the CIA. But instead of going back to the drawing board, the government responded by injecting more resources into the FBI's intelligence arm. Since 2001 the bureau has increased the number of its joint terrorism task forces from 35 to over 100 and doubled the number of its intelligence analysts and its linguists.

Yet these increased resources are trapped within a police culture that is incompatible with the bureau's task. Richard Posner, one of America's great public intellectuals, points out that police and intelligence work require very different skills. “Criminal investigation is case-oriented, backward-looking, information-hugging and fastidious (for fear of wrecking a prosecution). Intelligence, in contrast, is forward-looking, threat- rather than case-oriented and free-wheeling.” The FBI and the CIA also have a long history of mutual rivalry and suspicion.

So the FBI's mistakes have continued. In March 2005 Robert Mueller, the head of the FBI, told Congress that a $170m software program intended to allow field agents to share data on criminal and intelligence cases was a failure beyond salvaging. Some intelligence officers do not even have access to the internet on their desktop computers. Intelligence analysts are still treated as the bureau's poor relations.

Talent crunch

These organisational problems are reinforced by something even more fundamental: the growing shortage of talent. America won the cold war by throwing brainpower at the communists. It created an army of experts on Russia by sponsoring centres of Soviet studies and providing graduate students with Russian-language scholarships. It staffed the foreign-policy establishment with the best and brightest. And following the Russians' shocking success with their *Sputnik* space programme, it boosted the quality of its own maths and science education.

America still throws an impressive amount of brainpower at foreign policy. The country is thick with think-tanks and university departments devoted to studying foreign affairs. Each new administration brings a fresh influx of talent. The leading presidential candidates will be able to call on first-rate candidates for the main diplomatic jobs.

But look below that uppermost layer and you soon encounter talent shortages. The universities have been less impressive at analysing the threat of radical Islam than they were at dealing with communism. And some people in important jobs at American embassies are not pulling their weight.

Talent shortages are a problem in all rich countries (as well as in many developing ones). Brainpower is in ever greater demand as economies get more sophisticated. The “baby bust” is reducing the supply of workers. People are more footloose than they used to be. But in America the public sector is having particular difficulties. The difference in pay between the public and private sectors is bigger than elsewhere, and Americans are becoming increasingly hostile to government. The average age of the public sector's workers is significantly higher than the private sector's, so large-scale retirement looms. And thanks to the rise of NGOs, idealistic young people can choose other, more flexible career paths.

America's tradition of political patronage complicates the picture, particularly in the diplomatic world. Bill Clinton awarded about a third of the ambassadorships in his gift to political appointees. Mr Bush has given many of the most important ambassadors' posts on his watch to people who raised more than $100,000 for his two election campaigns. As America's ambassador to Britain, its most important ally in the Iraq war, he appointed William Farish, a Bush family confidant. Ambitious career diplomats are bound to draw their own conclusions from such choices.

America's universities have also been slow to respond to the problem of militant Islam. America's two top-ranked political-science departments, Harvard and Stanford, do not employ a single tenured faculty member who specialises in the Islamic world. The 9/11 Commission report noted that in 2002 American colleges and universities granted a total of just six undergraduate degrees in Arabic. Four years later the Iraq Study Group revealed that the American embassy in Iraq employs only six fluent Arab speakers.

In 2006 the Bush administration belatedly announced a National Security Language Initiative to encourage the study of foreign languages, not least Arabic. But given the dire state of language teaching in American schools generally, this is likely to prove an uphill struggle.

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Wooing the world

Mar 27th 2008
From The Economist print edition

Eyevine

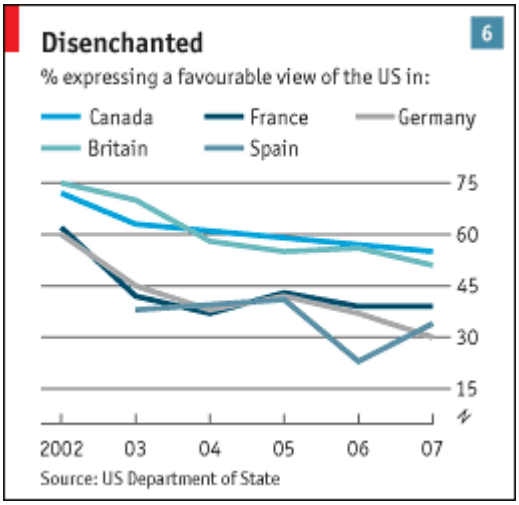
Sarkozy and Bush hit it off

America badly needs to improve its global image

FOR all their differences, the presidential candidates agree on one thing: that America needs to make a big effort to improve its global image. Mr Obama argues that his personal biography—he is the son of a black father from Kenya and a white mother from Kansas, and his middle name is Hussein—will help to heal America's rift with the world. Mrs Clinton promises to make her husband a roving global ambassador. Mr McCain touts the fact that he has quarrelled with the Bush administration on torture and global warming.

America has seen an unprecedented deterioration of its global image in the Bush years. The Pew Research Centre's annual survey of global opinion of America has made for increasingly grim reading: 26 out of the 33 countries polled now have a less favourable view of the United States than they did in 2002. The decline in America's image is particularly marked in Europe (its main ally) and in the Middle East (the most important theatre for the “war on terror”). Last year only 30% of Germans had a favourable view of America, down from 42% two years earlier (see chart 6). Pro-American sentiment is declining even in Mr Rumsfeld's “new Europe” in the east. In the Muslim world America's image has hit rock bottom. Positive views of America have dropped to 15% in Pakistan and a puny 9% in Turkey, an important ally. Most Muslims would like to see France or China replace the United States as the world's dominant power.

There is worldwide support for the withdrawal of American troops from Iraq and growing hostility to the deployment of American troops in Afghanistan. Most foreigners (for example, 89% of the French and 74% of the British) think that America's foreign policy fails to take other countries' interests into account. A majority of Turks, Moroccans, Jordanians and Pakistanis believe that the “war on terror” is a pretext for securing oil supplies, protecting Israel and winning world domination.



The nation they love to hate

Opposition to American foreign policy has become a mainstay of popular culture. British theatre is sustained by plays such as “The Madness of George Dubya”, “Guantánamo Baywatch” and “Stuff Happens”. “Metal Storm”, a bestselling Turkish novel, recounts Turkey's triumph over invading American troops.

Some neoconservatives are stoical about America's deteriorating global reputation. They argue that resentment goes with the territory and that extraordinary power provokes extraordinary hostility. They also point out that the term “hyperpower” was coined by a French foreign minister to describe Bill Clinton's America, not George Bush's, and they suggest that anti-Americanism tells us more about America's allies than it does about American policies: the allies are like irresponsible teenagers who bitch about their parents but enjoy living at home rent-free.

Some forms of anti-Americanism are certainly over the top: try reading poems such as “God Bless America” by Harold Pinter, a British writer. “My anti-Americanism has become almost uncontrollable,” confesses Margaret Drabble, a British novelist. “It has possessed me, like a disease.” Anti-Americanism has spread from the leftish literati to the political elites. Even traditionally pro-American political parties, such as Britain's Conservatives, have been forced to distance themselves from the United States. Popular resentment has caused trouble for pro-American politicians such as Britain's Tony Blair and Australia's John Howard, both of whom are now out of office.

Such anti-American attitudes have begun to have an adverse influence on America's strategic interests, making it more difficult for America to exercise hard power. For example, the Turkish government would not have been so adamantly opposed to allowing America to use its territory as a base for the invasion of Iraq had there not been so much public fury about the American move.

Anti-Americanism also makes it much harder to combat radical Islam in the Muslim world. America's Founding Fathers prided themselves on their “decent respect to the opinions of mankind”. Lack of such decent respect is proving to be a barrier to a successful foreign policy.

Soft power

The Bush administration has belatedly recognised this. Mr Bush encouraged Ms Rice's instinctive multilateralism. He also tried to improve America's global image by creating a job at the State Department especially for that purpose, first giving the position to an advertising executive, Charlotte Beers, and later to one of his closest advisers, Karen Hughes. Neither of them managed to make a success of it, mainly because Mr Bush is so loathed abroad. But the very fact that anti-Americanism is focused so much on Mr Bush himself offers the next president a golden opportunity to improve the world's view of America.

The most obvious way to do that is to play a more active role in combating global warming. The Bush administration's cavalier dismissal of the Kyoto protocol started the downward drift in America's global image even before the Iraq war; a determined attempt to do better on climate change might reverse that decline.

Taking global warming seriously would have domestic benefits too. Many governors and leading businessmen have been converted to greenery. The proportion of Americans citing environmental problems as a major global threat increased from 23% in 2002 to 37% in 2007. The change in mood is particularly marked among Democrats, 77% of whom say they consider the environment one of the most important issues; but it also extends to such traditionally Republican-leaning groups as Evangelical Christians, who talk about “creation care”. Mr McCain's enthusiasm for greenery is now shared by a growing faction within his party.

Another way of cleaning up America's reputation abroad would be to deal with the mess over Guantánamo Bay and torture allegations. An incoming administration could close Guantánamo Bay, renounce the CIA's secret prison camps and rendition policy and proclaim its willingness to abide by the spirit of the Geneva Conventions. Arguably, the rules of war need to be modified to deal with the terrorist threat, but the new administration would do better to try to change those rules multilaterally.

A third way might be to relaunch and perhaps extend Mr Bush's attempt to deal with AIDS in Africa. This has been one of his most ambitious and bipartisan policies, and helps to explain why he was greeted with such enthusiasm when he visited Africa in February.

Kori Schake, of the Hoover Institution, cautions against the danger of “rising expectations unfulfilled”. He argues that “Europeans will expect a more pliable, chastened and multilateral United States. They will want it to start solving problems on terms comfortable to Europeans. The United States will expect a more helpful Europe that will take more responsibility and run risks to solve common problems. Neither aspiration will be met.”

America will continue to resist attempts to tie it down, Gulliver-like, with global rules and global organisations. Superpowers with global responsibilities inevitably want room for manoeuvre which lesser powers resent. America will also find it easier to talk about grand gestures of global reconciliation than to implement them. The country's enthusiasm for tackling climate change may not extend to a petrol tax (which would be the surest way of changing behaviour). And closing Guantánamo Bay would still leave America with the difficult problem of what to do with the inmates.

Europe must do its bit

America will also expect reciprocal gestures from the Europeans. Mr McCain and his two Democratic rivals have complained that Europe is failing to bear its share of the burden. The incoming administration—particularly if it turns out to be a Democratic one—will probably want to do more to work through multilateral organisations, but it will expect them to do a lot more than talk. America will also expect the Europeans to make good on their commitments to NATO's peacekeeping force in Afghanistan, and to do their bit to help contain Iranian expansionism.

This could easily produce a backlash. An Obama presidency might well produce a frenzy of good feeling that dissolves into disillusionment on both sides. The Europeans may respond to the invitation to shoulder more of the world's burdens with a few empty gestures. And the American Atlas may well shrug and decide that multilateralism is not worth the effort. There will be no shortage of out-of-power neoconservatives who will seize on every failure of diplomacy to dismiss multilateralism as airy-fairy nonsense.

The dangers of isolationism

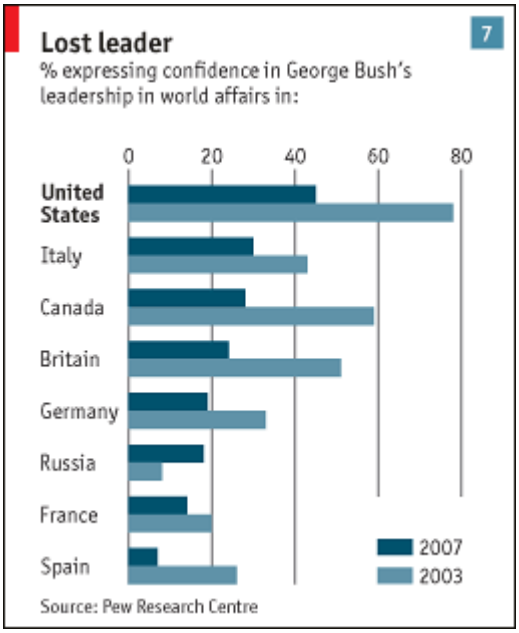
One of the biggest dangers facing the next president is that the bungled assertiveness of the Bush years may be replaced not by mushy multilateralism but by grumpy isolationism. In the past America has often followed periods of intense involvement with periods of withdrawal—think of the aftermath of the first world war or the Vietnam war—and isolationist sentiment is clearly on the rise. Around 42% of Americans now believe that the country should “mind its own business” and stop playing in other people's backyards. America has spent a fair amount of blood and treasure on bringing democracy to Iraq, the argument goes, and all it has got in return is a civil war and global opprobrium.

This isolationist sentiment is particularly marked when it comes to free trade. Worry about globalisation is deeper and broader than it has been for decades. It has spread from the working class to the middle class, thanks to the outsourcing of brain work, and from the Democrats to the Republicans. In their presidential campaigns both Hillary Clinton and Barack Obama have been playing on popular anxieties about globalisation, making a particular point of bashing the North American Free-Trade Agreement (NAFTA) at every opportunity.

America has seen a bigger decline in support for free trade over the past five years than any of 35 countries studied by Pew; indeed, Americans now lead the world in hostility to free trade. The proportion of Americans who think that trade benefits their country has fallen from 78% in 2002 to 59% today. Attitudes to illegal immigration have hardened even more. Three-quarters of Americans now say that there should be more restrictions on people coming to live in the country.

This anti-globalisation mood has already started to shape public policy. Congress has deprived the White House of its freedom to “fast-track” trade bills and has put up fights over even minor attempts at trade liberalisation. It has also rejected attempts to create a path to citizenship for illegal immigrants, and voted in favour of building a wall along the Mexican border.

The best way for politicians to avoid disillusionment is by managing expectations. This will involve making a careful assessment of where Americans and Europeans can agree (for example, on restraining Russia's growing belligerence) and where they will have to agree to disagree (for example, on Israel). It will also involve recognising that the grand simplicities of the cold war are unlikely to return.



Today's threats are fluid and unpredictable. The bonds that tied Europe and America together are weakening: Europeans no longer grow up thinking of Americans as liberators, and Americans no longer grow up thinking of Europe as their spiritual home. Strong cultural and demographic forces are pulling the two continents in different directions. But careful management could nevertheless reinvigorate the transatlantic relationship.

The most obvious reason for optimism is that Germany and France are now led by Angela Merkel and Nicolas Sarkozy, not Gerhard Schröder and Jacques Chirac. Ms Merkel has smoothed American-German relations and distanced Germany from Russia. The change in mood has been even more dramatic in Paris, once the capital of European anti-Americanism.

Mr Sarkozy is arguably the most pro-American president in French history. He regards America as the model of the aspirational mentality he wants to promote in France, and is much happier with American popular culture than with *rive gauche* intellectualism (he was first spotted in public with his new wife on a trip to EuroDisney). He has even created a press briefing room in the Elysée Palace that seems to mimic the one in the White House.

Mr Sarkozy's enthusiasm is proving infectious among his compatriots, not least because anti-Americanism is associated with Mr Chirac's failed presidency. The French foreign-policy establishment is notably worried about Iran's nuclear ambitions. When Mr Sarkozy went to Washington, DC, the French press wrote gushing articles about his visit (though his own popularity has recently taken a sharp dip).

It is also worth noting that anti-Americanism in Europe has never been quite as solid as it seemed. Many Europeans are ambivalent about America: prone to sounding off about Yankee imperialism but nevertheless infatuated with American culture. Many of them were furious with the Bush administration precisely because of its refusal to live up to the American ideals that had served the country so well during the second world war. Given a little wooing, they might be willing to fall back in love with America.

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A la recherche du temps perdu

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Getty Images

When the world was simpler

The old certainties of the cold war have gone. What might replace them?

WHEN Bill Clinton ran for the presidency in 1992, America was giddy with the thought of the peace dividend. George Bush senior may have proved his mastery of foreign affairs by ending the cold war and driving Saddam out of Kuwait, but Mr Clinton seemed young and energetic, the economy was sagging, and America wanted a holiday from 40 years of staring down the Russians.

This time round the mood is different. Foreign policy is central to the election, with Mrs Clinton and Mr Obama both arguing that America needs to change course in the Middle East and Mr McCain presenting himself as the only candidate with the experience and determination to keep America safe. At the same time the foreign-policy establishment is immersed in nostalgia for the cold war. It is understandably nervous about big foreign-policy ideas in the wake of the Iraq war. But in so far as there is a big idea making the rounds, it is “containment”. America should concentrate on containing Iran until it collapses under the weight of its own contradictions; containing al-Qaeda until it dies a natural death; and containing the spillover from the mess in Iraq. Today's foreign-policy mandarins cite George Kennan, one of the architects of the containment policy during the cold war, with the same enthusiasm as their elders did in the 1950s.

There is good reason for this nostalgia. America remains the world's indispensable power. But there is far more disagreement over American foreign policy than there was in Kennan's day. Should it concentrate on the nexus between terrorism, rogue states and WMD or should it pay more attention to China and Russia? And how should it deal with terrorists? Should it continue with Mr Bush's ambitious policy of exporting America's power and values or should it settle for a more modest policy of containment?

America will find it impossible to recapture the grand certainties of the post-war era. This is partly because the world has become a more fluid and complicated place. “Containment” might work in Iran, but what about Saudi Arabia or Pakistan, which occupy a shadowy world between friends and enemies? And what about al-Qaeda? Moreover, the complications are refracted through a different domestic prism. The old foreign-policy establishment that shaped the post-war world has collapsed, partisan divisions are growing and domestic lobbies are increasingly using foreign policy for local rather than national ends, making its conduct much more erratic and volatile.

A different kind of partisanship

The most striking change in American foreign policy since the end of the cold war is the rise in partisanship. As Charles Kupchan, of Georgetown University, has argued, the architects of the cold war did their best to secure broad support for their formula of liberal internationalism: American power abroad embedded in multilateral institutions. Their efforts did not eliminate disagreements. The liberal

establishment was challenged by populists like Joseph McCarthy. America was torn apart by Vietnam. But for the most part foreign-policy debates took place within parties rather than between them. Even during the Vietnam war the serious debate was less about the philosophy of containment than whether it should be extended from Europe to South-East Asia.

The partisanship of the Bush era is quite different: fought between parties rather than within them and driven by deep-seated disagreements over policy. Mr Bush's decision to extend the “war on terror” from Afghanistan to Iraq destroyed the bipartisan consensus established by September 11th. And his willingness to use the war against the Democrats ended any chance of rebuilding that consensus.

The two parties are now more divided over foreign policy than they have been at any point since the second world war. A Pew report in 2005 concluded that “foreign-affairs assertiveness now almost completely distinguishes Republican-oriented voters from Democratic-oriented voters; this was a relatively minor factor in past typologies.” James Q. Wilson, one of America's leading social scientists, notes that, although bipartisanship may have declined in the Vietnam era, it was not until the Bush era that it utterly collapsed.

This collapse makes it harder to gather popular support for America's policy. In an address to the United States Congress in 2003, Tony Blair, then Britain's prime minister, summoned up the image of the average American—“out in Nevada or Idaho or these places I've never been to, but always wanted to go”—asking why he had to shoulder the burden of America's global role. That question is even harder to answer when the country's politicians are constantly at each other's throats.

It also makes it harder to provide continuity. Successful policy demands consistency and perseverance, as the cold war demonstrated. If polarised politicians and contradictory domestic interests all chip in, the result is likely to be confusion.

The growing power of domestic lobbies also works against continuity. Ethnic groups such as Irish-Americans have long had an influence on policy by dint of sheer numbers. But these domestic interest groups are becoming more varied and powerful as politicians are getting ever hungrier for cash. Henry Kissinger once noted that “what is presented by foreign critics as America's overweening quest for domination is very frequently a response to domestic pressure groups.” This tendency is likely to increase in the post-Bush era, leading to a still more fragmented foreign policy.

The power of pressure groups is magnified by the indifference of large numbers of Americans to foreign affairs. America has always had a big country's introspective tendencies, which are now being reinforced by the fragmentation of the media. The established broadcasting networks have cut back on their foreign coverage, and the cable networks' talkshows pander to their audiences' prejudices.

American exceptionalism adds to the complexities of foreign policy. Americans are more religious, more patriotic and more willing to use force in global affairs than the citizens of other advanced countries. When it comes to religiosity, Americans are more like the inhabitants of developing countries than of other developed countries; when it comes to the use of force, Americans continue to inhabit the 19th-century world of great-power politics whereas Europeans believe in diplomacy and treaties.

American exceptionalism may not be as big a problem for the next administration as it has been for the present one. The Iraq war has left America exhausted, and the Democrats are closer in their outlook to the Europeans than are the Republicans. But Mr Bush's Republican combination of national assertiveness and idealism has deep roots in American history, and the balance of power in America continues to shift from the more “European” north-east to the South and the sunbelt. In the longer term exceptionalism is likely to re-emerge.

Demographic trends will encourage its return. America's fertility rate is 60% higher than Japan's and 40% higher than the European average. America is taking in immigrants at a faster rate than Europe and making a better job of assimilating them. The UN Population Division predicts that by 2025 America's population will be growing by about 2.5m a year whereas Europe's will be shrinking; that the median age in America will be lower than in Europe (38 compared with 44); and that a smaller proportion of the population will be over 65 (18% compared with 21%).

Corbis

Kid power

America will be the only big developed country where children outnumber pensioners, and one of the few developed countries where the working-age population is still growing. Europe will struggle with financing its welfare state and absorbing immigrants, whereas America will remain relatively young and vigorous.

Try something new

The problems with American foreign policy under the next president are likely to be very different from those under the current one: it will suffer from a lack of certainty rather than an excess of it. A Democratic administration is likely to be similar to the first Clinton administration in 1993-97: risk-averse and hypersensitive to domestic pressure, responsive rather than history-making, opportunistic rather than principled. Even a McCain administration will find itself hemmed in by Democratic majorities in Congress and war-weariness among the public. This could also produce a muddled foreign policy, with the president pulling in one direction and Congress in the other.

The short-term prospect for America's foreign policy is one of confusion. The country will remain uncertain about its role in the world, unable to extricate itself from Iraq, unwilling to devote enough resources to dealing with Islamic terrorism and buffeted by partisan divisions at home. Yet the longer-term prospects are no more edifying. America is deeply divided between a Democratic Party that wrings its hands over American exceptionalism and a Republican Party that rejoices in it. Hyperpower and hyper-partisanship are an explosive combination. The world will have to learn to live with it.

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Sources and acknowledgments

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Bankruptcies in America

Waiting for Armageddon

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Illustration by David Simonds

The recent rise in corporate bankruptcies in America may well be a sign of much worse to come

CAPITALISM without bankruptcy, it is said, is like Christianity without hell. With recession looming, the air in America's bankruptcy courts is thick with brimstone and the coals are being heated in readiness for the many sad souls whose sin was to borrow too much. After several heavenly years, in which bankruptcies fell to record lows, going bust is back. How bad will things get?

If the debt markets are to be believed, companies could be in at least as much trouble as they were in the previous two downturns, in the early 1990s and at the start of this decade, after the dotcom bubble burst. A leading indicator is the spread between yields on speculative “junk” bonds and American Treasury bonds. A year ago, the spread was only about 280 basis points; the long-term average is around 500 points. This month the spread exceeded 800 points for the first time since March 2003, reaching 862 on March 17th.

The bankruptcy rate (in the previous 12 months) for high-yielding bonds has so far edged only modestly higher, to 1.28% from a record low of 0.87% in November. But most forecasters expect it to rise sharply over the coming months. For instance, Moody's, a ratings agency, predicts that the default rate will rise to 5.4% by the end of this year, mostly due to problems in America. (Moody's also expects a rise in European bankruptcies this year, but only to 3.4%, thanks to lower levels of borrowing and less exposure to economic weakness.)

That is a relatively optimistic prediction, for it would merely return the bankruptcy rate close to its long-term average after an abnormally trouble-free period, and it assumes only a mild recession in America. But if there is a severe recession, the default rate “could go to double figures,” admits Kenneth Emery, head of corporate-default research at Moody's.

Other forecasters are much gloomier. FridsonVision, a research firm, publishes a default-rate predictor based on the percentage of bonds trading with a spread of at least 1,000 basis points. On March 19th this was forecasting a default rate on high-yielding American corporate bonds of 8.55% by the end of February 2009, compared with Moody's forecast for American bonds of 6.8% for that date.

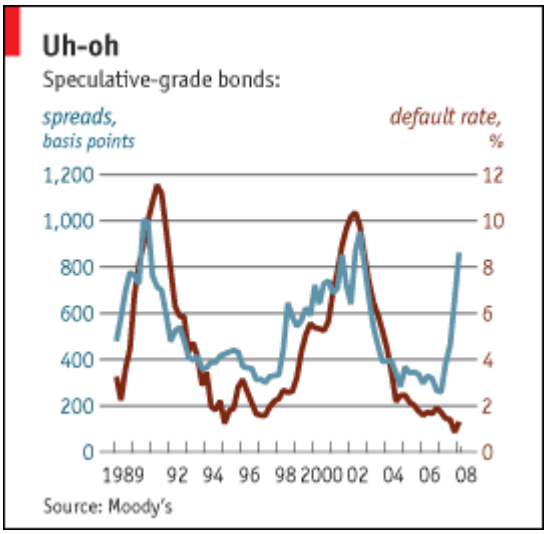
Martin Fridson, the firm's founder, admits this forecast is risky, because it relies on prices set in a market that has been hit by the liquidity crisis. Indeed, some contrarians believe that today's corporate-bond

spreads say more about the shaky health of the financial markets than they do about the condition of corporate borrowers. As liquidity returns, they predict, corporate-bond prices will soar, making this the buying opportunity of a lifetime.

Mr Fridson concedes that the difference between corporate-bond spreads and actual default rates is unusual and hard to explain: on the previous occasions when spreads have exceeded 800 points, the default rate was already 9.43% in 1990 and 5.44% in 2000. That said, the huge amounts of "covenant lite" debt issued in the credit boom of 2005-07, which gives lenders much less power to demand their money back than in the past, may have delayed the moment of default for many underperforming firms. So FridsonVision looked at the ten firms in which spreads exceeded 1,000 points by the smallest amounts. If these were merely victims of irrational pessimism in the market, they ought to be in relatively good shape. In fact, the analysts found plenty of reasons to worry. The companies included household names such as Beazer Homes, Ford and Rite Aid, all of which are "exhibiting classically distressed behaviour of downsizing amid recurring losses."

A look at the firms with distressed debt shows that problems are rapidly moving beyond the long-term sick (airlines, cars) and the industries immediately affected by the crisis (home builders, mortgage lenders, monoline insurers). Craig Deane of AEG Partners, a restructuring-advisory firm, says he is now seeing troubled companies in retailing, restaurants, manufacturing and food processing.

As defaults rise, the new rules governing Chapter 11 of America's bankruptcy code will face their first test. Long admired as the world's best system for allowing corporate liabilities to be restructured while giving firms a decent chance of staying in business, the rules were tightened in 2005 to deter firms from staying in Chapter 11 too long and to stop the managers of bankrupt firms from paying themselves too much. One result may be that firms will try to restructure without going into Chapter 11, or at least do much more preparation before they enter it, says Mr Deane.



But perhaps the biggest difference this time will be the effects of the huge market for credit derivatives and other credit-related securities, which often dwarf the amount of debt that a firm has issued, says Henry Owsley of Gordion, another restructuring adviser. The interaction between underlying debt and credit derivatives will complicate bankruptcy and near-bankruptcy no end, he says.

A big concern for company bosses will be the role of speculative investors, especially hedge funds. They can use derivatives to pursue complex strategies that may not be in the best interests of the firm that has issued the underlying debt, says Henry Hu, a law professor at the University of Texas, Austin. In a bankruptcy, a hedge fund could use the voting rights attached to different securities to maximise the overall value of its holdings in the firm at the expense of other investors.

Imagine, for instance, a hedge fund that owns debt secured against a company asset. It may prefer to force the firm into liquidation in order to win that asset rather than engage in a restructuring negotiation that will keep the firm alive. Meanwhile, it can boost its returns by short selling its unsecured debt and its equity. Or suppose that a hedge fund owns credit-default swaps as well as a firm's debt. If the fund makes enough money from the pay-out of the credit-default swaps, it may prefer to use the voting rights on its debt to ensure that the firm goes bust rather than negotiate a way to avoid bankruptcy.

So far there is little hard evidence that hedge funds are doing this. But in recent papers written with his colleague Bernard Black, Mr Hu reports credible rumours and other evidence of what they have dubbed "debt decoupling", both in and outside of bankruptcy. Such activity is only likely to increase. "When there are more restructurings and bankruptcies, there is a lot more potential for mischief," says Mr Hu.

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Tata, Jaguar and Land Rover

Now what?

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What the Indian conglomerate will do with two luxury-car brands

DEPENDING on which way you look at it, in acquiring Jaguar and Land Rover (JLR) from Ford for $2.3 billion, Tata Motors has either got itself two of the most famous brands in the car business at a bargain price—or a sea of troubles. In India there is both pride in Tata's global ambition and a fair dose of scepticism. Tata Group, the parent of Tata Motors, may be India's biggest industrial conglomerate, but there are concerns that it may have taken on more than it can manage. When the deal was first mooted, S. Ramnath of SSK Securities, a Mumbai stockbroker, feared that passion rather than logic was in the driving seat. Balaji Jayaraman of Morgan Stanley added that buying JLR was clearly "value-destructive given the lack of synergies and the high-cost operations involved."

The reasons for such trepidation were plain enough. Land Rover has recently turned a corner (it made a profit of about $1.5 billion last year), but Jaguar cost Ford some $10 billion during its 18-year stewardship and its sales were in decline. Analysts also struggled to see what synergies there could be between a maker of trucks and basic cars (including the new $2,500 Tata Nano) and two luxury marques.

There is, however, another possibility: that Ratan Tata, Tata Group's modest but surprisingly bold patriarch, has got himself an extraordinary deal. Lord Bhattacharyya, an expert on manufacturing at Warwick University who knows both JLR and Mr Tata well, is in no doubt. "How often do two such icons come up for sale at the same time? Land Rover is now sustainably profitable and you are about to see a renaissance of Jaguar," he says.

Ford is selling JLR only because the crisis in its North American operations requires its undivided attention—and every spare dollar. Tata was sufficiently convinced by the five-year plan drawn up by JLR that it has promised to back it without any big changes. It has also pledged not to shift production from three British factories. Tata is impressed with the quality of JLR's managers and is determined to give them the freedom and stability they lacked under Ford's often erratic ownership.

As far as Jaguar is concerned, the plan calls for a return to its premium traditions, eschewing volume models such as the unloved X-type. The first step will be a new XJ, Jaguar's flagship saloon, due next year. After that there is likely to be a coupé version of the XF and, most exciting of all, a successor to the E-type sports car of the 1960s. Eric Wallbank of Ernst & Young, a consultancy, says that the XF has shown the way forward for Jaguar. "When they get it right," he says, "there is a lot of goodwill out there for them to tap into."

Land Rover, for its part, has provided a glimpse of its future with a concept car first shown at the Detroit motor show earlier this year. Small (by Land Rover's standards), light and low-slung, the LRX, which should go into production in mid-2009, has been praised for having styling unlike any other Land Rover, while remaining in touch with the brand's traditions.

Perhaps the biggest worry for JLR's new owner is the prospect of new carbon-emission laws in Europe and California that will penalise makers of thirsty, high-performance vehicles. JLR is particularly vulnerable. Even Mercedes and BMW make small cars that will help offset their gas-guzzlers when the new rules, based on fleet-average emissions, come into force. As well as continuing to supply Jaguar with engines and other components, Ford will provide access to its hybrid and low-emission powertrain technology. But if Tata could find a way to sell its Nano in Europe and California, that would be one synergy well worth having.

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China's steel industry

Pile up

Mar 27th 2008 | HONG KONG
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A curious fight over iron-ore prices

TROUBLE is brewing as the April 1st deadline approaches for the conclusion of the annual negotiations between China and its main foreign suppliers of iron ore. In February China's largest steelmaker, Baosteel, struck a deal with Vale, a Brazilian mining giant. But negotiations have dragged on with the other two big suppliers, Rio Tinto and BHP Billiton, both of which have large operations in Australia. Things are now starting to get dirty.

In recent weeks, stories have circulated about ships filled with Australian iron ore being unable to get the import licences they need to sell their cargo on China's spot market, where prices are two or three times higher than the contract rate. Licences are still being issued for shipments from India and Brazil. It would be a violation of numerous international trade rules if China were to discriminate overtly against Australian shipments. But the applications for licences are not formally being denied. Instead, they have fallen victim to unexplained delays.

BHP Billiton has had a shipment held up in Australia; Rio Tinto is reported to have had delays in China. So far this has not materially affected earnings, so no public statements have been made, but the skirmish is being closely watched. Reports in the Chinese media suggest that the government is deliberately blocking the Australian shipments. That has not been confirmed by Chinese authorities, but it has not been denied either. Many in the industry conclude that this means China wants a message to get through.

The stand-off is largely a result of the staggering price increases for commodities caused by China's voracious demand. Supplies procured at the contract rate meet only 35% of its needs, according to Merrill Lynch, an investment bank. In the year to the end of March, iron ore went for $50 a tonne. For the next year, Vale will receive over $80 for a tonne of top-grade ore. Rio Tinto and BHP Billiton want an even higher price, on the basis that it costs the Chinese less to ship ore from Australia.

On the face of it, the Chinese do not have a strong bargaining position, since the alternative to agreeing on a fixed-contract price is to buy on the spot market, where low-quality Chinese iron ore sells for $200 a tonne and low-quality Indian ore sells for $226. In response to this obvious opportunity, Rio began selling Australian ore on China's spot market in December, annoying the Chinese authorities, who fear costs will spiral out of control.

Delaying incoming Australian shipments will, of course, also hurt Chinese steelmakers, but nothing in China is ever simple. Among the odd short-term beneficiaries of high spot prices are the big steelmakers, which are thought to receive most, if not all, of the supplies delivered under long-term contracts. They can then resell ore, at spot prices, to the smaller Chinese firms, making a profit and undermining their competitors at the same time. Meanwhile, stockpiles of ore at ports have been steadily growing, according to Mysteel.net, a trade publication based in Shanghai (see chart). This may indicate that industrial demand in China is slowing down. At the very least, it would explain why China feels it can turn away supplies.

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Business in Russia

Another inspector calls

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TNK-BP falls foul of the law, again

WHEN Dmitry Medvedev, Russia's president-elect, gave a speech extolling the benefits of the rule of law earlier this month, some optimistic souls declared that things were looking up for business in Russia. Pessimists responded that Mr Medvedev would have neither the inclination nor the authority to reverse Vladimir Putin's enthusiasm for meddling in the private sector's affairs. The debate continues, but a series of setbacks for TNK-BP, Russia's fourth-biggest oil producer, has given the pessimists lots of ammunition.

Under Mr Putin, tax inspectors, environmental officials and other bureaucrats have taken a close interest in privately owned energy firms. Last year the authorities began investigating TNK-BP, a joint venture between Britain's BP and private Russian investors, for failing to meet its production quotas from Kovykta, a huge gas field. Before that, Royal Dutch Shell and its partners fell foul of environmental inspectors. In both cases, the firms agreed to sell controlling stakes in the relevant projects to Gazprom, Russia's state-owned gas giant, and their problems magically disappeared. They were no doubt chastened by the example of Yukos, a private Russian oil firm, that fell foul of the Kremlin and was forced into bankruptcy by swingeing claims for tax arrears.

Now TNK-BP is feeling the heat again. Tax inspectors have begun a probe at one of its subsidiaries. The security services have charged an employee with “industrial espionage”. And problems with visas have prompted BP to recall 148 employees it seconded to TNK-BP.

BP gamely professes to see no connection between these events. Some suspect the Kremlin wants more assets for its state-owned champions, Gazprom and Rosneft. Others think BP's own partners may be manoeuvring for a better deal. At the very least, the multiplicity of theories suggests that the energy business in Russia is as murky as ever.

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Baseball in Japan

The old ball game

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Japan loves baseball—but increasingly prefers the American sort

EPA

Baseball's coming home

AMERICA'S 2008 baseball season opened on March 25th when the Boston Red Sox beat the Oakland Athletics by six to five. But the game was played in Japan, not Massachusetts or California. And the real winner was America's Major League Baseball (MLB), the sport's governing body, which is taking the business of baseball global. In doing so, it is disrupting domestic baseball in Japan, where the game is the adopted national sport.

Japanese television used to broadcast domestic games almost every day, and high-school tournaments still fixate the nation. But in recent years the Americans have lured Japan's best players with fat salaries; 17 now play in MLB, including two pitchers for the Red Sox. American games attract huge television audiences, pushing aside domestic teams. Sales of merchandise jump when American clubs sign Japanese players. MLB's revenue in Japan, $100m last year, now accounts for 60% of its income outside America. Japan risks becoming a mere farm-team and fan base for America, frets Masaru Ikei, a professor at Keio University and author of “Baseball and the Japanese People”.

Baseball was brought to Japan in the early 1870s by American missionaries as the country modernised after the Meiji Restoration. It was such a hit that Babe Ruth and other stars played exhibition games in 1934. A professional league, Nippon Professional Baseball (NPB), was formed. The Japanese approached baseball with the dedication normally applied to martial arts; it fits well in a culture that stresses teamwork and individual sacrifice. After the second world war, the American occupational authorities used it to help reconcile the two nations.

Ball clubs originally concentrated in big cities such as Tokyo and Osaka. They took their names from corporate sponsors, rather than their home cities. The result is that today the 12 teams in the NPB are run more as promotional operations than sports teams: the Nippon Ham Fighters from Hokkaido, for example, are owned by a meat-processing firm. Almost all lose money. Some have moved to smaller cities where there is less competition to fill stadiums or sell rights to local television. They are developing regional fan bases, striking promotional deals with hotels and travel firms to get people to the games.

But the sport continues to struggle. NPB's disappointing results are largely due to poor management, says Robert Whiting, an expert on Japanese baseball. Baseball in Japan brings in around $1.5 billion a year, mainly from ticket sales, compared with more than $6 billion in America, where the sport makes money from ticket sales, broadcast rights, merchandise, sponsorship and internet distribution. Accordingly, the average salary for a Japanese player is around $500,000, compared with $3m in America, which therefore attracts the best players.

In America, furthermore, MLB instituted a revenue-sharing agreement whereby broadcast rights are sold as a bundle, and all teams share the proceeds. Profits from merchandise are also shared out, and all teams benefit from centralised marketing. (That said, MLB is accused of pressing municipalities to pay for new stadiums by threatening to relocate teams, and its desire for record-breaking stars caused it to turn a blind eye to steroid use that has harmed the image of the game.)

Now the Americans are taking baseball to a global audience. American clubs played two exhibition games in China for the first time this month, and MLB officials are eyeing India and South Africa as promising new markets. The MLB has foreign offices in Tokyo, Sydney and London, and last year it opened one in Beijing. It is a disappointment for Japan, explains Mr Ikei. Japanese teams once harboured the ideal of turning the “World Series” from an American affair into a truly international one. “That is a long way off,” he says.

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Business in France

Fraternity

Mar 27th 2008
From The Economist print edition

French boards are chummy affairs

ON MARCH 28th some 3,000 guests were due to attend one of the most glittering events in the Parisian social calendar: the 117th annual gala ball of the Ecole Polytechnique, held in the opulent grand rooms of the Palais Garnier. Guests are greeted by an honour guard and an arch of swords. Polytechnicians wear dress uniforms with cocked hats as they dance quadrilles, watch ballet and drink champagne.

Among the ambassadors, senior civil servants and other assorted dignitaries will be the bosses of France's leading companies, meeting in an environment that allows new deals to be floated and discussed. Besides attending the annual ball, the bosses of the CAC 40, the top 40 listed French companies, also get together once a month to compare notes, taking turns to make presentations.

Band of brothers
French board members

Member	Companies
Denis Ranque	Chairman and chief executive: Thales. Director: Saint-Gobain.
Gérard Mestrallet	Chairman and chief executive: Suez. Director: AXA and Saint-Gobain.
Jean-Louis Beffa	Chairman: Saint-Gobain. Director: GDF and BNP Paribas.
Jean-Martin Folz*	Director: Saint-Gobain, Société Générale, Carrefour and AXA.
Claude Bébéar	Retiring chairman: AXA, Director: BNP Paribas and Vivendi.
Michel Pébereau	Chairman: BNP Paribas. Director: Lafarge, Saint-Gobain and Total.

Source: Company reports

*Former Chairman and CEO of PSA Peugeot Citroën

But France's top bosses do not really need grand balls or monthly dinners to stay in touch. The same names crop up again and again on company boards. Board meetings of Saint-Gobain, a large building-materials firm, routinely bring together a quintet of France's leading businessmen (see table), presided over by its chairman, Jean-Louis Beffa, the “Pope of French industry”.

A new study by Francis Kramarz and David Thesmar, under the auspices of the CEPR, a pan-European economic-research group, delves into the composition of French boardrooms. It comes to two conclusions: the background of the chief executive determines the composition of a firm's board, and the performance of such boards is below par.

That a high percentage of top jobs is held by graduates of the Ecole Polytechnique and the Ecole Nationale d'Administration (ENA) is hardly surprising, given their elite status. What is slightly more surprising is the role of the civil service. Mr Kramarz and Mr Thesmar looked at former civil servants who graduated from ENA, those who graduated from the Polytechnique, and polytechnicians who never worked in the civil service. Chief executives who went to one of the two schools and worked in the civil service tended to appoint board members who had done the same; Polytechnique graduates who went straight into business did not.

The magic mix of *grandes écoles* and *cabinets* does not do much for shareholders. The authors found that companies led by such grandees, surrounded by their peers on the board, underperformed other firms on average. Even so, the men at the top tend to survive. Boards in London and New York are also incestuous to some degree, but France's corporate social network is unusual in being so closely intertwined with the civil service.

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Wine in Australia

From quantity to quality

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From The Economist print edition

The long boom turns to bust

THE road from Mildura to Merbein, in north-west Victoria, is a sad sight. Many of its farms are covered with wine grapes, dying on the vines. Farmers planted the vines hoping to cash in on the seemingly endless boom in Australian wine. As with the gold rush that gripped Victoria 150 years ago, the most unlikely types expected to make a fortune. But in 2007 the boom turned to bust, forcing many farmers to walk away from grapes and land they cannot sell.

Over the past 15 years Australia's wine industry has been one of its great success stories. Export revenues last year reached A$3 billion ($2.4 billion), four times the figure from 1997. Britain, America and Canada, among the most competitive markets for wine, are Australia's three biggest customers. But the suffering in places like Mildura and nearby Renmark in South Australia is a sign that the industry fell victim to its own success.

Flushed with growing demand for Australian wines, a grape shortage and soaring grape prices, growers rushed to plant more vines in the late 1990s. In 1998 they put in a record 16,000 new hectares, double the new plantings two years earlier. In 2005 Australia produced almost 2m tonnes of wine grapes, a quarter more than analysts say its markets can absorb.

Then came Australia's worst drought in a century. Mildura and Renmark are surrounded by desert, and fruit farms and vineyards survive only with irrigation from the Murray River, the lifeblood of Australia's agriculture. Smaller firms, which supply the big winemakers with some of their grapes, faced a double whammy: falling grape prices and cuts to irrigation water. Stephen Strachan, chief executive of the Winemakers' Federation of Australia, an industry body, reckons the drought was a turning point, even if a tragic one in some cases, in forcing the industry back to “sustainable levels”. The planting rush has ended. The 3,600 hectares of new vines planted in 2006 almost equalled the 3,400 hectares of vines ripped out of the ground that year.

The drought has also led to much soul-searching among Australia's 2,000 wine producers about how the industry can recapture its reputation for quality wines. There is now stiff competition in the mid-market from other New World producers, notably New Zealand, where the wine industry is booming (see article). Much Australian wine during the grape glut found its way onto the world market as bulk or “commodity” wine, sold at low prices or even at a loss. This harmed Australia's reputation among consumers. Australian producers now face the task of earning a reputation for quality rather than quantity. The appreciation of the Australian dollar, which makes Australian wines more expensive overseas, has brought a new urgency to the job.

Historically, many Australian winemakers have derided the French approach to making wine, especially the idea that the finest wines come only from a *terroir*—the union of climate and soil characteristic of each place. Australian producers instead pride themselves on what they regard as a less snooty and more democratic approach: blending grapes from different regions to achieve a consistent wine. But some are now asking whether marketing an Australian wine's locality, as much as its grape variety, might not work better.

Some smaller producers are already doing just that. In Margaret River in Western Australia, for example, small winemakers produce 3% of the country's production, mainly at the high end of the market, and independently of the big companies that predominate in eastern Australia. Denis Horgan, the owner of Leeuwin Estate, raves about the region's soil and climate, and prides himself on Leeuwin's high-quality wines, which sell for as much as A$95 a bottle. Steve Webber, the winemaker at De Bortoli, a family winery in the Yarra Valley of Victoria, argues that Australia can no longer hope to compete on price alone. “We have to be making more interesting wines, and we have to look more to our regions, as the French do,” he says.

Australia's 2008 grape harvest is expected to be back down to 1.6m tonnes. Grapes are once again in short supply, and prices are rising modestly. But only the foolhardy would take this as a chance to make a killing, and start planting again.

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Wine in New Zealand

At the sweet spot

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The industry is booming as quality and quantity improve

BUSINESS is brisk at the Highfield Estate vineyard in Marlborough, with packed restaurant tables and a busy tasting station. This is normal for a weekend, says Naomi Galvin, the sales manager. The happy scene reflects the broader health of New Zealand's wine industry, which had a bumper year in 2007. Wine overtook wool exports in value for the first time, and it is now the country's 12th most valuable export, worth NZ$760m ($610m), up from NZ$94m in 1997. New Zealand Winegrowers (NZWG), a national trade body, boasts that the industry sold 1 billion glasses of wine in nearly 100 countries. Exports to Australia are buoyant, and New Zealand accounts for over 10% of wines sold in Britain for more than £5 ($10). Interest in America is picking up too, judging by a recent showcase held in Phoenix, Arizona. Across the board, demand exceeds supply.

This success has several causes. The first is that winemakers are working hard to improve quality and are exploiting New Zealand's unique climate to produce distinctive wines. David Strada, NZWG's marketing manager in America, gives the example of New Zealand's characteristic Sauvignon Blancs and Rieslings, which show the thumbprint of the unusually long, cool growing season. The increasing quality of its Pinot Noir is also attracting attention. Just a few years ago, the country was known only for its Sauvignon Blanc.

Better wines have been promoted with better marketing. NZWG has been putting on more overseas wine tastings, and many producers also travel to promote their wines to distributors and wholesalers. “Getting a glass into a buyer's hand is essential,” says Stuart Smith, the owner of Fairhall Downs Estate, a Marlborough vineyard. This year America will become the largest export market for his wine, he says, replacing Australia. New Zealand wine has also benefited from a “halo effect” from advertisements promoting tourism in the country, which emphasise the freshness and purity of its landscape. Cloudy Bay's coup as the first winemaker to export Marlborough Sauvignon Blanc to the British market is often mentioned by those in the industry. Its branding, logo, timing and quality all aligned perfectly. “We all want to be the next Cloudy Bay,” sighs a small winemaker.

The industry hopes to double exports between 2010 and 2015, but it faces a few obstacles. The appreciation of the New Zealand dollar means winemakers must cut prices to remain competitive. It is not easy for small producers to find distributors in new markets such as America, says Kaar Field of Kemblefield Estate Winery, in Hawkes Bay. Another problem is a shortage of labour. Mr Smith says that with 40,000 locals and 20,000 hectares of vineyards, grape growers and vineyard owners in Marlborough, the biggest wine region, need 3,000 people to prune their vines annually. Vineyards rely on migrants from the Pacific Islands of Vanuatu and Tonga, but there are not always enough. For the time being, though, New Zealand's wine is flowing nicely.

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Face value

This is your captain speaking

Mar 27th 2008
From The Economist print edition

The Guardian

British Airways' Willie Walsh loves his new terminal at Heathrow. But it will not solve all his problems

Get article background

WILLIE WALSH, the diminutive Irish boss of British Airways (BA), has been counting the minutes to this week's opening of Terminal 5, the airline's £4.3 billion ($8.5 billion) new terminal at Heathrow airport. In recent weeks his speeches and interviews have been littered with references to the number of days, hours and minutes left to go. T5 has not come a moment too soon. As the biggest tenant of Europe's busiest and most congested airport hub, BA's image has been tarnished by what Mr Walsh calls the "Heathrow hassle"—the horrible combination of endless security queues, delayed flights and lost baggage.

Mr Walsh confidently predicts that for 92% of BA's customers (not quite everything is moving to T5) that will now change. The new terminal, designed by Lord Rogers, is indeed as grand as most of the rest of the airport is down-at-heel. It should allow BA to operate much more efficiently, improving the punctuality of flights and speedily reuniting passengers with their bags. It will also help it win back some of the highly mobile premium-transfer traffic that has gone elsewhere. But T5 will not give BA the other thing it craves: more precious slots at Heathrow to add to the 42% of the airport's capacity it already controls. Although Mr Walsh is reluctant to admit it, T5 is less a launch pad for growth than a shield against difficult times that lie ahead.

In early March he told investors that BA's margins would fall from 10% in this financial year to 7% next year, mainly because of soaring fuel bills. Some analysts think BA is still being too optimistic. It depends more than any other big carrier on the North Atlantic, which generates about 65% of its profits. That makes it vulnerable on two counts. The first is the slowdown in the American economy; the second is the "open skies" agreement between the European Union and America, which, coincidentally, also takes wing this week. Although Mr Walsh is starting a subsidiary airline, called OpenSkies, which will fly the Atlantic from continental Europe, he concedes it will start as a modest business, with a handful of elderly 757s. The opportunity is far outweighed by the threat of greater competition at Heathrow, where three newly arrived American airlines will add about 15% to business-class capacity across the Atlantic.

The ambition of BA's two bigger European rivals is another worry. Both Air France-KLM and Lufthansa have been busy consolidating the European industry. Air France is ready to take over ailing Alitalia; Lufthansa owns 29% of BMI—the third-biggest British carrier, with 12% of the slots at Heathrow—and is in prime position to buy the rest. By contrast, Mr Walsh and a consortium of private-equity firms failed last year to win Iberia (though last week BA quietly increased its stake from 10% to 13.5%). Like every

other big carrier, BA is also under permanent attack in the short-haul business from the low-cost operators, principally easyJet and Ryanair. But perhaps Mr Walsh's biggest problem is the constraint that Heathrow's lack of capacity puts on BA's growth. He is a fervent, if self-interested, drum-banger for the controversial third runway (see article). Europe's other big hubs, he points out, all have double the number of runways.

Does Mr Walsh have the daring and agility to find a way through all this? That he is a disciplined operating executive with a nose for cutting costs is not in doubt. Unusually for anyone running an airline these days, he is a professional pilot. He began his career at the age of 17 as a cadet with Aer Lingus, the Irish state-owned carrier, and was a captain by 29. One passenger, he recalls, refused to board after catching sight of the baby-faced pilot. After a stint as a union negotiator, he changed sides, winning his management stripes by turning round a subsidiary in Majorca. He became the boss of Aer Lingus immediately after September 11th 2001. The airline was in free fall, but Mr Walsh had the guts and the industry knowledge to save it from bankruptcy. Applying the lessons taught by local rival Ryanair, he cut 40% of the workforce. By the time he left, in January 2005—after a row with the government over plans to complete the privatisation of the airline—Aer Lingus was profitable.

Mr Walsh was recruited by BA to take over from Rod Eddington, in part because of his reputation as a house-trained version of Ryanair's Michael O'Leary. He soon found himself grappling with familiar problems. Although BA was a much more powerful and better-run business than Aer Lingus had been, it had a £2.1 billion black hole in its pension fund (half the size of its stockmarket value) and rotten labour relations. Mr Walsh decided that repairing the balance sheet would have to take precedence over buying other airlines. His other priority was to modernise BA's working practices before the move to T5.

Something transformative

Mr Walsh believes that the secret to running an airline is knowing which costs add value for passengers and which do not. He has, for example, spent money on additional pampering for premium customers (including £60m on ritzy lounges in T5), but has saved it by ruthlessly paring distribution expenses paid to ticket resellers. A stronger balance sheet has allowed Mr Walsh to begin the overdue replacement of BA's long-haul fleet with orders for both Airbus's giant A380 and Boeing's yet-to-fly 787.

OpenSkies and a recently announced all-business class service between London City Airport and New York are signs that BA is getting back its entrepreneurial energy, Mr Walsh claims. He does not want BA to expand for the sake of it: “Being bigger does not make you better,” he says. But he admits that he would consider a big deal if it was genuinely “transformative”, and his frustration over the foreign-ownership restrictions that still apply to American airlines suggests what sort of deal he has in mind. Come what may, says Mr Walsh, he will retire at 55. That gives him nine years to show that he can do more with BA than pilot a skilfully controlled descent.

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Heathrow airport

Hemmed in at Heathrow

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London's main airport is bursting at the seams. A third runway and a sixth terminal are not the answer to the congestion

AFP

Get article background

TERMINAL 5, a £4.3 billion ($8.5 billion) glass-and-steel palace, stands as a monumental rebuke to the shabby, low-rise buildings that form most of the rest of Heathrow airport. T5's opening day, March 27th, was marred by the delays and missing baggage for which London's main gateway is infamous. But travel should become more bearable for customers of British Airways (BA), which has exclusive use of T5. Punctuality is predicted to improve and passing through security should take just a few minutes. In time, T5 is expected to handle 30m passengers a year.

The question now is whether Heathrow can grow even more. In the next few months Gordon Brown, Britain's prime minister, must decide whether to press ahead with the building of a third runway and a sixth terminal at Heathrow by 2020.

Expansion looks like the obvious answer to the well publicised problems of an international airport that is both the world's busiest and the one most loathed by those who use it. Heathrow is beyond full, and a new runway and another new terminal would provide a bit more room.

However, obvious answers are not always the best. Additional capacity would be quickly filled. Rival airports, notably in continental Europe, already have the capacity and room to grow that Heathrow will always lack. Higher prices for Heathrow's capacity, and more competition from other London airports, may be a better answer to the squeeze than making the old airport bigger.

Growth and greenery

Expansion, however, is the demand of BAA, the airport's owner, and the airlines, especially BA, which holds more than 40% of take-off and landing slots at Heathrow. They will applaud Mr Brown if he gives it his backing. Broader business lobbies will raise a cheer too.

Any such plan will be bitterly resisted by well organised residents' groups, supported by all the main candidates in London's mayoral election, on May 1st, and by 15 local councils. They contend that the local noise and air pollution caused by Heathrow already amount to an environmental disaster that

expansion will only worsen. Moreover, they say, because most arriving planes use a flight path across the capital, a terrible accident is waiting to happen—a claim reinforced by the recent crash of a BA Boeing 777, which only just reached the airport perimeter.

The regulatory and financial backdrop to Mr Brown's decision is if anything more complicated than the politics. The Competition Commission is examining whether BAA's monopoly in the south-east (it also owns Gatwick and Stansted, London's other big airports) has contributed to the awfulness of Heathrow. Next month it is expected to reveal its “emerging thinking” about whether BAA should be forced to divest itself of some airports.

The commission will have to juggle the merits of greater competition with the airport operator's financial weakness. Grupo Ferrovial, the Spanish construction firm that bought BAA in 2006, has been caught out by the global credit crunch. Having borrowed about £9 billion to buy BAA, it is trying to restructure that debt and cut its interest bills, so far without success.

BAA was afforded only modest comfort by another regulator, the Civil Aviation Authority (CAA), which announced new five-year price caps for Heathrow and Gatwick this month. To help BAA pay for improvements at Heathrow, which include the replacement of Terminals 1 and 2, the CAA will allow it to raise passenger landing charges. Next year they will increase to £12.80. Until 2013 their annual rise will be limited to the increase in the retail-price index plus 7.5 percentage points.

The airlines complain that they are being forced to help Ferrovial meet its interest payments. Embattled BAA, which has just replaced its chief executive, replies that it will be investing £5 billion over the next five years and that the money has to come from somewhere. It also says that even if it gets approval for a third runway and sixth terminal, without higher prices it might not be able to pay for them. The aviation industry thinks they might cost £13 billion.

What no one seriously disputes is the main reason why Heathrow is so dreadful: it is bursting at the seams. The airport struggles with more than 68m passengers using buildings and systems designed for 45m. Its two runways operate at 99% of capacity. That does not just cap the number of flights at today's limit of 480,000 a year. With no slack, the tiniest mishap can cause delays to multiply across departure and arrival boards. Even those passengers lucky enough to take off on time (too few: see chart 1) must endure crowded check-in desks, snaking security queues, standing-room only in shopping-mall departure lounges and a long hike to the gate.

From T5, BA's customers should travel more hopefully. But because other terminals are soon to be demolished for the next phase of rebuilding, the airport's total passenger capacity will not reach the expected 90m for several years. And T5 does not address the chronic shortage of runway space. BAA says that the third runway, which at just 2,200 metres long would be used only by single-aisle aircraft (the existing ones are 4,000 metres), will lift the annual total of flights to 720,000.

Meanwhile BAA wants the government to let it use its existing runways more intensively (in “mixed mode”) by 2015, raising capacity, it reckons, by 10-15%. This means ending an agreement on runway alternation, which gives a six-hour break every day to 2m people affected by aircraft noise. In a recent consultation exercise by the Department for Transport (DfT), local opposition to this was even fiercer than to the threat of a new runway.

Picking winners

Only too aware of the political difficulties, the government cannot be accused of rushing to expand Heathrow. In 2003 it published a White Paper on air transport. This advocated two new runways in the south-east by 2030, but the government committed itself only to a second runway at Stansted. A 1979 planning agreement prevents the building of a second runway at Gatwick before 2019. The government made clear its preference for a third runway at Heathrow, but feared that this would cause a breach of

European Union pollution rules (the area also has lots of road traffic). A proposal for a new airport in the Thames estuary was dismissed as too risky and too unkind to birds.

But in a “progress report” on the White Paper in December 2006, the government was much keener on a third Heathrow runway. Two things appear to have changed its mind. One was the growing sense that Heathrow, especially after the imposition of more onerous security measures that summer, was becoming a place that people avoided if they could. The other was heavy lobbying from business, especially BA and BAA, which persuaded the government that Heathrow and its route network were indispensable to London's economy and that its status as an important hub was already in jeopardy.

The economic support for a bigger Heathrow was supplied by Oxford Economic Forecasting (OEF), a consultancy, in a report in October 2006. Paid for by the aviation industry and VisitBritain, a tourism quango, OEF's analysis also had the backing of the Confederation of British Industry and the DfT. OEF estimated that using Heathrow's two existing runways in mixed mode would raise GDP by £2.5 billion a year by 2015. A third runway would be worth £7 billion a year by 2030. If all the runway proposals in the White Paper were implemented, the figure would rise to £13 billion a year by 2030. Moreover, without any increase in capacity the costs to airlines and passengers of increasing congestion would reach £20 billion by 2030. By comparison, the annual cost of greenhouse-gas emissions from all the extra flying was put at a mere £700m.

That aviation is important to the economy is not in question. But the case for expansion is not quite as strong as OEF's conclusions suggest. Central to the firm's estimation of air travel's contribution to the economy is the value of a business journey compared with a leisure one: £400 for business, £120 for leisure. However, OEF acknowledges that business travel is only about a third of the total from Heathrow. If some leisure travellers were to fly from other airports, capacity would be freed for additional, more valuable business flights. On the assumption that business travellers are less sensitive to price than holiday-makers, one way to bring this about would be to increase the price differential between Heathrow and other London airports.

The government also sets great store by the “connectivity” that Heathrow provides as a hub airport. The main reason why Heathrow is so full is the rapid growth in transit and transfer passengers. In 1992, according to the CAA, these made up only 9% of the total; by 2004 they accounted for 35%. International transfer passengers, who never leave the airport, are valuable to airlines (at Heathrow, to BA above all). But they have little wider economic value other than to make some “thin” routes viable and to increase frequencies on the more popular routes.

According to work by OEF for IATA, a global aviation-industry body, extra connectivity increases both productivity and GDP. However, in its 2006 report OEF also noted: “Over 80% of companies report that transfers at a continental hub [rather than Heathrow] are either very or sometimes acceptable.” Most people would prefer to travel directly to their destination and should increasingly be able to do so from regional airports thanks to new, smaller types of long-haul aircraft such as Boeing's 787 and the Airbus 350. But if they must use a hub, they do not much mind whether it is Heathrow, Paris Charles de Gaulle, Frankfurt or Amsterdam. Heathrow's network has shrunk, from 227 routes in 1990 to 180, but by definition, it is the least attractive routes that have gone: BA has still managed to increase the number of cities it serves in India. Heathrow may lose further connectivity if it does not get a new runway, but it is not clear that a few people wanting to fly from Britain to destinations not directly served by Heathrow would be greatly inconvenienced.

Perhaps the chief defect of OEF's report is that although it puts a price on climate-change emissions, it makes no attempt to do the same for local air pollution or noise, the negative externalities that affect people most directly. Yet whereas greenhouse-gas emissions will be much the same whether or not Heathrow expands (because most of the traffic would go elsewhere), the effects of local air pollution and noise vary greatly depending on where extra capacity is built.

The government seems to have satisfied itself that precisely these forms of pollution should no longer hold Heathrow back. When it began a public consultation on adding capacity at Heathrow last November (which ended last month) it surprisingly claimed to have been convinced that all the local environmental obstacles had been removed. It said that new, quieter aircraft would deal with the question of noise. These same planes would also emit smaller quantities of poisonous nitrogen dioxide than today's fleet. Adding in cleaner cars, the government was confident that EU pollution limits would not be breached after all.

That conclusion was based on assumptions suggested by BAA. This month Justine Greening, a shadow

Treasury minister and the MP for Putney, under the Heathrow flight path, obtained papers through freedom-of-information laws that show that data from BAA were fed into the government's environmental models. The *Sunday Times*, which broke the story, reported that BAA hit the noise targets by raising the number of new aircraft that would replace old ones by 2030 and lowering the number of flights. After a similar approach was applied to cars, it transpired that despite another 240,000 flights there would be no extra pollution after all. It remains to be seen whether BAA's revised assumptions prove to be correct.

The wrong place

According to Sir Peter Hall, the president of the Town and Country Planning Association, Heathrow's underlying problem is that it has been in the wrong place all along. The 62-year-old airport is hemmed in by residential areas on all sides. To the west, the centres of Slough, Staines and Windsor, all big towns, are within five miles. The proposed third runway is to be shoehorned in between two main roads to London, the A4 and the M4. As aviation has changed out of all recognition, the problems caused by Heathrow's location have multiplied. Coping with them has become harder, dearer and less popular.

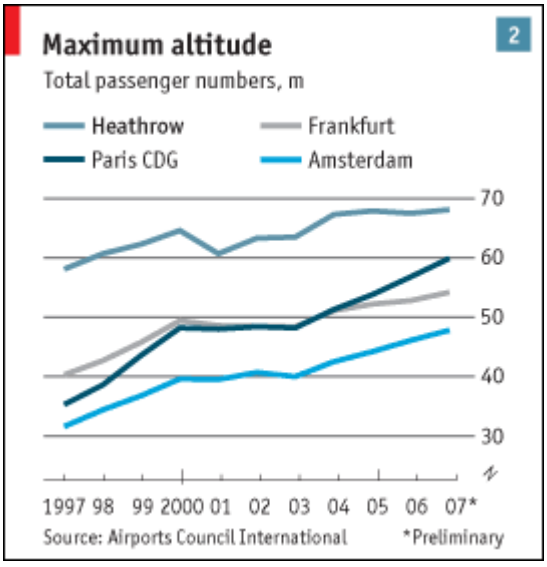
Heathrow's unsuitability as a big commercial airport goes back to its origins as a base for fighters during the second world war. It was built to the west of London, to be less vulnerable to enemy bombers, and was laid out with up to nine runways radiating from a cluster of buildings, including air control, in the centre. A good design for scrambling fighters proved hopeless for a civil airport. Only three runways survived, of which just two (running east to west, and generating most noise blight because of the prevailing westerly wind) proved suitable for regular use.

When the first permanent terminal (today's Terminal 2) was built in 1955, it was decided to stick with the original layout and reach it through a narrow road tunnel, which is still the main way in. The next two terminals were also placed in the centre, ensuring perpetual traffic congestion. “Heathrow's history”, says Sir Peter, “is a series of minor planning disasters that together make up one of the country's truly great planning catastrophes.”

As demand for air travel has risen and risen, governments have attempted to relieve Heathrow by diverting traffic to other airports close to London. Gatwick came first in the late 1950s; Stansted followed in the 1970s. Both are now nearly as full as Heathrow, thanks to low-cost carriers such as easyJet and Ryanair, but in one important respect the policy has not worked. Airlines have had little incentive to move their long-haul routes and the transfer traffic that helps feed them from Heathrow.

There is no easy answer to these problems. The government says that it wants to expand Heathrow so it can compete as a hub with rivals on the continent. But for two reasons the expansion of Heathrow now envisaged is almost bound to fail.

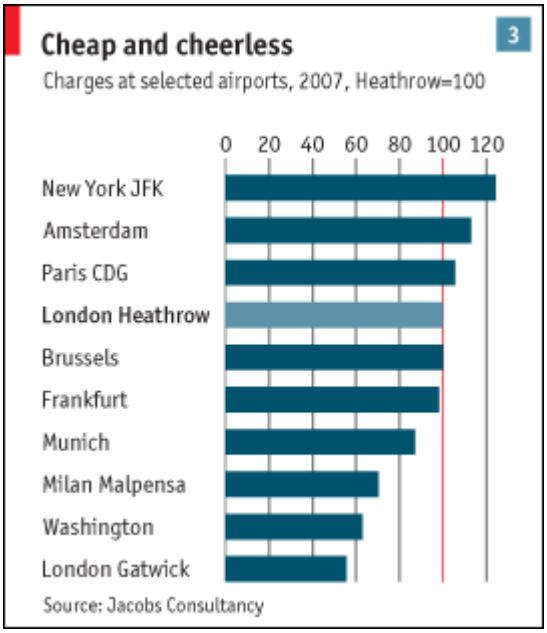
The first is that Heathrow would be full again within a decade of the opening of a third runway. Air travel is likely to get more expensive because of big increases in the cost of jet fuel and the inclusion from 2012 of airlines in the European emissions-trading scheme. But even so, the CAA's passenger-traffic forecasts suggest that the growth rate of air travel to, from and within Britain will not fall much below its long-term trend of 5%. Business travel is rising steadily at around 8% a year.



At Heathrow, passenger traffic has been flat for two years or so (see chart 2). But this is probably because some transfer passengers, put off by the airport's squalor and the “one bag” rule imposed by the British government in 2006, switched to less crowded, friendlier hubs. The airlines certainly see no shortage of underlying demand at Heathrow. Charges at Heathrow are not high by international standards (see chart 3), and airlines are prepared to fork out huge sums for slots on the grey market. In preparation for the entry into force of the “open skies” agreement between America and the EU this month, one American carrier, Continental, has just paid over £100m for four slots.

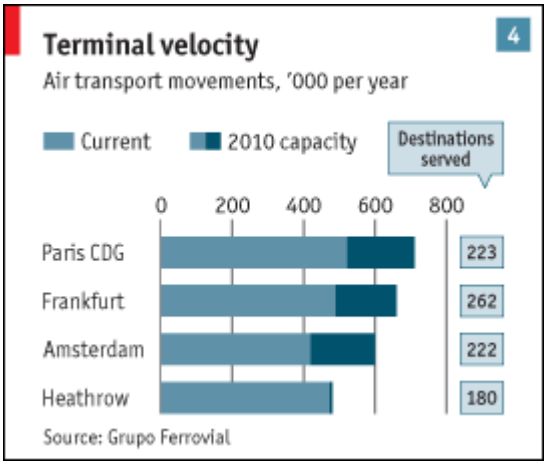
The high price of slots strongly suggests that, at today's landing

charges, only lack of capacity is holding back the number of flights and passengers. With T5 and the advent of the Airbus A380 on the busiest long-haul routes, the CAA expects passenger traffic to rise by 15% within five years. It does not forecast the effect of mixed-mode or a new runway, but the chances must be that previously repressed demand would surge to fill the new capacity.



The second reason is that the rival hubs on the continent have more capacity now than Heathrow will ever have (see chart 4). Amsterdam has five full-size runways; Charles de Gaulle and Madrid have four, as will Frankfurt by 2010. All are linked to high-speed rail networks by short spurs, something Heathrow can only dream about. Elsewhere, Dubai is fast establishing itself as a global hub linking Asia with the rest of the world. It will soon have six runways.

BAA has mused about a fourth runway at Heathrow by the middle of the century. But there is nowhere for it go and it would be too little, too late. In short, Heathrow can never be the competitive global hub the government says it wants it to be.



If that is so, what should be done? Almost every other country faced with a similar question has chosen to move its hub airport further away from the capital, to where there is space to expand. The list is long, from Paris to Tokyo. In the early 1970s it was also, briefly, British government policy to build a new airport, east of London, on reclaimed sandbanks in the Thames estuary, to supplement and then supplant Heathrow. The scheme foundered for several reasons: the economic crisis that overtook the country ruled out any big new public investment programmes; there were safety concerns about seabirds being sucked into jet engines; and before high-speed rail the 28-mile distance from central London was deemed too great.

At the time of the 2003 White Paper, Bluebase, an architectural firm specialising in large infrastructure projects, made a new proposal for an airport in the estuary. With two big runways and two smaller ones for short-haul aircraft, the airport would handle more than 130m passengers a year, about twice as many as Heathrow can now. Running 24 hours a day and connected to both seaports and the high-speed Channel rail link, its flexibility would have far exceeded Heathrow's.

However, according to Mark Willingale, a senior partner at Bluebase, the DfT showed no interest in carrying out a proper study, even though Bluebase had obtained “spectacular” results from the department's own model of economic benefits and some initial interest from the Star Alliance (the biggest global airline alliance, which includes Lufthansa, United and Singapore Airlines). Mr Willingale says that the airport could have been built for around £12 billion at 2003 costs (about the same as Hong Kong's new airport, also built on reclaimed land) and would have complemented plans for a tunnel under the Thames estuary and new flood defences. But it could not overcome the interests ranged against it.

He recalls the apparent pleasure of a DfT official producing a report on the impact of the airport on local birdlife: “He pushed it across the table to us with the words, ‘Not good news, gentlemen, I'm afraid'.” Stephen Nelson, the outgoing chief executive of BAA, claims that the government turned down the plan after costing it at £33 billion, an amount well beyond the means of BAA and requiring public subsidy. Mr Nelson puts the cost of the new Heathrow runway at around £7 billion, but it is unclear whether this includes the associated infrastructure and the cost of the sixth terminal.

Many planning experts like the idea of an airport in the estuary. The regeneration of the Thames Gateway region (a government priority) can also be called in aid. But the de facto outsourcing of airport-building to BAA, a company that is unlikely to have an interest in doing anything that would reduce the value of its existing assets is, for now, an insuperable difficulty.

Roy Griffins, the chairman of London City Airport and a former head of civil aviation at the DfT, argues

that one alternative is to accept that, like New York, another world city short of space, London will never have all the airport capacity it could use: “There comes a time when you just have to say, that's it.” The implication is that rather than relying solely on new capacity, the government needs to find better ways, environmentally and economically, of managing what already exists.

A good start would be to recognise that, even at the prices just set by the CAA, Heathrow will still be far too cheap. The CAA is obliged by law to act in the interests of passengers and airlines by restraining BAA from extracting monopoly rents. It must also give BAA an incentive to run its airports efficiently and invest in improved facilities. Striking that balance has proved difficult. Shabby facilities are evidence of under-investment, while, as the CAA privately admits, BAA has been encouraged by charges linked to passenger numbers and the “single till” policy, which allows its profits from retailing to subsidise airside operations, to stuff as many passengers into its airports as it can. The CAA has no duty to promote competition.

Getty Images

The wide open spaces of Terminal 5

A different approach would be for prices at Heathrow to rise over time closer to market-clearing levels. This would allow a better balance between supply and demand. The main effect would be to squeeze out the most price-sensitive passengers, almost certainly holiday-makers and those changing planes. The holiday traffic would mainly go to other British airports, such as an expanded Stansted, while the transfer passengers would be more likely to use nearby hubs in Europe. Another effect would be a sharp reduction, perhaps to zero, in the value of slots.

The airlines with “grandfather rights” to slots, especially BA, would howl. So would those, such as Continental, which have recently paid a lot for them. Heathrow's network would shrink a bit more, which would annoy the airlines based there and disgruntle some passengers. But those prepared to pay extra to use the airport—mainly, business travellers—would find it much more pleasant and efficient.

That raises the question of whether BAA should be allowed the full benefit of higher prices at Heathrow. A case could be made for the CAA eventually getting out of price regulation if BAA no longer owned Gatwick, the only existing British airport with the potential (given a second runway), to compete with Heathrow. Gatwick is reasonably near London, has good transport links and its main flight path is over the Channel and farmland. It is already the world's seventh-busiest international airport and the busiest with one runway. With another, it could support more traffic than Heathrow does now.

A new owner of Gatwick would have a strong incentive to run it as an alternative hub to Heathrow—something that seemingly has not appealed to BAA. Mr Griffins thinks an expanded Gatwick might well be able to lure a big airline alliance with lower prices and the promise of its own terminal away from the long shadow BA casts at Heathrow. Such is the importance of the economy of London and the south-east—it contributes 40% of GDP—that it could well support a second hub airport.

That a bigger Heathrow and a continuation of the flawed regulatory system serve the interests of both BA and BAA is obvious. But it is far less clear why the government still behaves as if it thinks two private-sector companies should be the chief influences on such an important area of public policy. In a saner aviation market, airports would be free to compete against each other and eventually to set their own prices. Over to Mr Brown.

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Bear Stearns

No picnic

Mar 27th 2008 | NEW YORK
From The Economist print edition

Illustration by Satoshi Kambayashi

JPMorgan Chase quintuples its bid for its battered rival. Now for the hard part

THE dramatic $2-a-share rescue of Bear Stearns was, almost everyone agreed at the time, the best way out of an awful situation. Bear was going for a song, but that was better than bankruptcy, which might have caused global markets to collapse. The only aggrieved parties were Bear's shareholders and employees—but they had got it into the mess in the first place.

And yet, a week later on March 24th, JPMorgan Chase raised its offer fivefold and other elements of the deal, brokered by the Federal Reserve, were amended. The world's bankers heaved a sigh of relief at the improved terms—so did many at Bear. But why the reprieve?

For sure, nobody knows precisely what Bear is worth, so stuffed is it with hard-to-value, illiquid mortgage securities and other nasties. That explains how a respectable firm like Lazard, Bear's adviser, could in the space of a few days endorse both the $2 and $10 bids in fairness opinions.

Dimon geezer

The main reason for improving the offer, however, was to overcome disaffection among Bear's employees and shareholders, who had threatened to torpedo the deal. In offering more, Jamie Dimon, JPMorgan's boss, hopes to recast himself not as a plunderer but as a pragmatist focused on people as well as price.

Other things needed revisiting, too. The original deal had been cobbled together in such a hurry that key clauses were mangled. One sloppy sentence appeared to require JPMorgan to continue guaranteeing Bear's trades even if its shareholders voted down the takeover. But the bigger problem, according to a JPMorgan executive, was that the guarantee would fall away if Bear's board recommended a rival bid. Unlikely though that was, it unnerved some of Bear's biggest trading partners, who continued to pull away last week. The higher bid was a price deemed worth paying to stop the exodus.

The higher price looks a bit more like the kind of rescue for shareholders that the Fed had wanted to avoid, fearing accusations of a bail-out. In exchange, it will no longer be responsible for all $30 billion of Bear's least liquid assets; JPMorgan has agreed to bear the first $1 billion of losses. But the Fed (and thus the taxpayer) could still end up losing billions. Upcoming congressional hearings on the deal are

likely to be stormy. The Fed, however, will stick to its line that, however imperfect the rescue, letting Bear die would have been much worse. “It has been messy, but bear in mind it was done in the fog of war,” says Roy Smith, a finance professor at New York University's Stern School.

As well as giving Bear's shareholders more money, the revised deal does give JPMorgan a lot more certainty that it will be completed. The bank gets 39.5% of Bear straight away through an issue of new shares. Sympathetic Bear directors own around 6% more, bringing it close to the simple majority needed.

But much litigation looms. Already, several class-action and other suits have been filed against Bear and its board. Executives could be in the line of fire too, since they assured shareholders that the bank was fine just before it almost went belly-up. JPMorgan has set aside $6 billion for legal and other merger-related costs.

With perhaps half of Bear's 14,000 employees facing redundancy, many feel they have nothing to lose by kicking up a fuss. JPMorgan is stepping up efforts to win over those it wants to keep—it has offered star brokers signing bonuses of up to 100% of the annual revenue they generate. Some, however, are being offered double that to decamp to rivals. Mr Dimon has appealed to other firms not to poach.

Bear offers some attractive franchises, for instance in prime brokerage, clearing and energy. But not everyone is convinced these are worth the effort. Prime brokerage has been haemorrhaging clients to Goldman Sachs and others. Morale at other businesses is said to be rock-bottom. So JPMorgan may not be getting a bargain after all, reckons Dick Bove of Punk Ziegel. He points out that the total cost of the deal, adding in the $6 billion charge (but excluding the new share issue), is around $65 per share. Hardly a snip.

The assumption that JPMorgan is strong enough to absorb Bear may also be tested soon. Certainly, the bank is in better shape than its arch-rival Citigroup, having largely avoided the most toxic subprime securities. But its mix of businesses suggests plenty of pain to come.

The bank is heavily exposed to rising corporate defaults. It is also big in home-equity loans, which are souring at an alarming rate. More importantly, it is a giant in the over-the-counter derivatives market, and number one by a long way in credit-default swaps. With such a large derivatives book, the bank can withstand losses of only 15 basis points (hundredths of a percentage point) across its positions before eating through its regulatory risk-based capital, according to Institutional Risk Analytics (IRA), a research firm. These positions are, like those of America's housing giants, Freddie Mac and Fannie Mae, too big to hedge effectively, IRA says. It also calculates that JPMorgan needs almost five times its current capital to cover its economic risks.

The bank hotly disputes this. It points out that its actual exposure to derivatives, at $67 billion, is a mere thousandth of the notional value of the trades. But this is still a big number. And the backdrop remains bleak: this week Goldman put banks' eventual credit losses at an eye-watering $460 billion. Mr Dimon is likely to face some worrying distractions as he integrates what is left of Bear.

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Buttonwood

Requiem for a prudent man

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From The Economist print edition

A fund manager's career has lessons for today's investors

IF THE recent credit boom has taught us anything, it is that investors can be persuaded to forget about the risks when the returns look attractive. Sure enough, they are now paying the price.

It is a lesson that Tony Dye, a fund manager who died on March 10th, understood only too well. In the late 1990s, he became widely known (and occasionally mocked) as the “Dr Doom” of the financial markets. It is true that one rarely came away from a conversation with Mr Dye feeling more cheerful about life. On occasions, indeed, he could sound rather paranoid, as when he talked about the “dark forces” that were propping up the stockmarket.

However, in Buttonwood's opinion, Mr Dye epitomised an old-fashioned model of fund management that should still be emulated. Most people criticise him for being too early; for forecasting the collapse of technology stocks in 1998 and missing out on the last two years of a great bull market. The merits of that criticism, however, depend on what attitude fund managers should take towards risk. Mr Dye used the analogy of being asked to board a train which you were convinced would crash at some stage in its ten-station journey. The optimal strategy may be to stay on board for five stops or so. But if your main concern is safety, you should not board at all.

The first collective fund managers, back in the 19th century, were accountants and solicitors who looked after their clients' money. They were well aware that should some of their investments go wrong, they would lose their hard-earned reputation for probity. So they were appropriately cautious.

The idea was expressed as the “prudent-man rule”, after a Massachusetts judge suggested trustees should “observe how men of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested.” The rule has been adapted and revised many times since. But the essence should surely be this. Would a fund manager advise a relative or neighbour to own such an asset? If not, then he should not buy it on behalf of his client.

However, modern fund management interprets the concept in a different way. Managers are judged by their ability to beat the index appropriate to their market niche. If dotcom stocks are 20% of that index, it would be imprudent for the manager not to own any of them.

Risk becomes redefined as the danger of falling short of the benchmark, rather than the risk of losing the clients' money. Indeed, the main risk faces the manager himself—clients may move elsewhere, in search of a better-performing fund.

That is what happened to Mr Dye, whose firm Phillips & Drew lost clients to rivals at the height of the dotcom boom. He duly left his job just weeks before the bubble burst, in what turned out to be a classic sell signal for the market.

Indeed, the irony was that Mr Dye was proved right in the long run. Technology stocks were too high in the late 1990s and the Nasdaq is still less than half its 2000 peak. Those who bought either the London or New York share indices in 1998 earned a real annual return of just over 2% up to the end of 2007; safe Treasury bonds earned 3.7% over the same period.

Mr Dye's biggest quality was the courage of his convictions. His approach may not have delivered investors the very highest returns, but he was more concerned to avoid the lowest. In contrast, the modern approach is to follow the herd, requiring investors to buy tulips in 17th-century Holland because everyone else was doing so.

Mr Dye's example was not entirely in vain. Nowadays, fund managers are generally given more latitude to take “tracking risk”—to own portfolios that do not resemble the index. However, this freedom is normally granted in the hope of earning excess returns rather than with the aim of avoiding losses.

The pain suffered during the 2000-03 bear market in shares has also encouraged investors to diversify into alternative assets, such as hedge funds and commodities. You could see this as a sign of prudence, although it is worth noting that these asset classes also yield higher fees for the fund-management industry.

But the herd mentality is hard to overcome. When mortgage-backed securities were earning double-digit returns in 2005, fund managers who thought they were too risky were not generally lionised for their prudence. Instead, they were seen as old fogies who just didn't get it. Mr Dye has too few successors, but the clients are at least partly to blame.

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Financial markets

Still wobbling

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From The Economist print edition

The credit drought continues to cast a pall over markets

THE rescue of Bear Stearns has been greeted in some quarters as the salvation of the financial markets. The Federal Reserve's commitment to lend money to investment banks has revived sentiment towards them; American financial stocks rose by 11% in the week ending March 21st, according to Dresdner Kleinwort. There has been a strong rally in investment-grade bonds. Volatility has fallen in both share and currency markets.

But the rebound still looks vulnerable. First, there is the continued logjam in the money markets, where banks are still struggling to find funding. Three-month rates for euro-zone interbank loans hit 4.7% on March 25th, their highest level this year. In Britain bank borrowing costs touched 6%, three-quarters of a point above official rates. Banks may be desperate to hold on to their own money, lest they suffer the same fate as Bear Stearns, and investors may be suspicious about the financial health of the industry.

Second, there are signs of stress in emerging markets. Iceland has long been a favoured destination for the “carry trade”, whereby investors borrow in lower-yielding currencies to invest in higher-yielding ones. But the country's central bank this week raised interest rates to 15% and injected liquidity into the banking system, after Icelandic banks faced difficulty getting foreign financing following a 22% drop in the krona against the euro this year. Other carry-trade beneficiaries, such as Turkey, have also seen their currencies weaken and their financing costs rise. Joining the trend, Romania raised rates on March 26th to support its currency. These moves suggest investors are becoming more risk averse, not less.

Third, there is the evidence that investors are choosing to “deleverage”—or reduce their market positions in order to repay their debts. Deleveraging by hedge funds was blamed for the sharp fall in commodity prices that followed news of the Fed's latest interest rate cut. It may be that hedge funds decided to reduce their riskiest positions after the central bank indicated that it was still worried about inflation; a belief that the Fed was “asleep at the wheel” had previously been pushing raw materials prices up and the dollar down.

More humble investors than hedge funds are also having their access to credit restricted. IG Index, a British spread-betting firm, says it has increased the margin requirements for ordinary punters wanting to gamble on bank stocks, from 5% to 10%, and to as much as 20% for four more volatile stocks (Alliance & Leicester, Anglo Irish, Bradford & Bingley and Lehman Brothers). And Gavekal, an economic consultancy, says that American farmers are having problems hedging against changes in the wheat price, because of the cost of meeting margin requirements.

The problem with deleveraging is that it can create a self-perpetuating cycle. Tighter credit standards lead investors to sell assets, forcing down prices and making other lenders nervous about the creditworthiness of their borrowers. It can also cause some panicky price movements, as sellers, fearing further losses, unload their assets at almost any price.

As banks tighten credit, businesses and consumers will face pressure to cut spending (witness the latest fall in American durable-goods orders). The economic effects of that restraint will then feed back to the markets. “The Fed may have underwritten the solvency of the banks but the economic problems haven't gone away,” says Peter Oppenheimer, a strategist at Goldman Sachs.

What the world's monetary authorities have yet to show is that they can influence the banks' willingness to lend, as well as the rate at which they do business. Until they do, financial markets will continue to be vulnerable.

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Ecotourism and economics

Shellshock

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The Galapagos Islands show the mixed blessings of greenery

TOURISM has a long history in the Galapagos Islands. An early visitor was Charles Darwin nearly 175 years ago, on a trip that inspired his theory of evolution by natural selection. A lot has changed over the years. Visitors are now central to the future of the isolated archipelago. Income is needed to raise standards of living and create incentives for local people to conserve the fragile natural environment.

Edward Taylor, an economist at University of California, Davis, and colleagues report on ecotourism and economic growth on the islands in a forthcoming paper in *Environment and Development Economics*. They say the conservation strategy of relying on income growth in the islands has failed owing to uncontrolled migration from mainland Ecuador.

Between 1999 and 2005, GDP increased by an estimated 78%, from a base of $41m—giving the archipelago an annual growth rate of around 10% and making it one of the world's fastest-growing economies. Tourism provided 68% of this growth. Despite this, average income per head rose by only 1.8% annually. This is because Ecuador's economy collapsed in 1999 and large numbers of migrants sought opportunities elsewhere. Because of migration, the islands' population rose by 60%.

More people have put increased strain on the islands' water supply, sewerage and waste disposal, not to mention its fragile wildlife. Exploitation of fish from the marine reserve is increasingly intense and there is plenty of antagonism between fishermen and conservationists; the fishing fleet doubled during the study and illegal catches are common. However, fishing is a relatively minor contributor to GDP. Just under 4% of the recent growth can be attributed to sales of fish.

Even the conservationists and scientists are making things worse—they, too, are an important source of GDP growth. Although their spending is focused on environmental protection, it also injects millions of dollars into the economy each year, further stimulating migration.

The authors say that the slow growth in GDP per head creates even more political pressure to explore development options for the economy, whether through commercial fishing in the nature reserve, or additional numbers of tourists.

Visitors to the islands who hope to help the Galapagos may want to bear in mind that every $3,000 more the islands earn—every three extra visitors, in other words—sucks in another migrant. Not very eco-friendly.

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Export restrictions

Cereal offenders

Mar 27th 2008
From The Economist print edition

Curbing food exports to feed hungry mouths is a recipe for trouble

FROM a “band of bakers” protesting in Washington, DC, to rioters setting buildings alight in Ouagadougou, Burkina Faso, pressure has risen on governments around the world to bring down food prices. In the past two weeks Cambodia, Indonesia, Kazakhstan, Russia, Argentina, Ukraine and Thailand have taken the easy option, restricting food exports in an attempt to shore up domestic supplies.

Such curbs may be politically expedient, but they are economically self-defeating. They demotivate farmers, push them into growing the wrong crops and jeopardise their future access to markets. Moreover, the restrictions on supply send prices even higher on world markets. As David King, secretary-general of the International Federation of Agricultural Producers, puts it, governments are choosing to “starve their neighbours”, rather than allowing higher prices to encourage their farmers to invest in greater production.

Farmers are already frustrated. Just as they enjoy decent earnings after years of falling food prices, governments seek to push prices down. Because of export quotas, Ukrainian growers, after harvesting more than they could sell at home, were forced to toss $100m-worth of rotten grain into the Black Sea earlier this year—just when world markets were desperate for supply. The measures can also be counter-productive, forcing growers to switch into new crops to avoid the export curbs. That can make local food shortages even worse.

When the barriers are lifted, farmers may find they have lost access to once-secure markets. This happened to America in the early 1970s, when President Nixon banned oilseed exports to keep down domestic prices. The embargo caused America's customers, especially Japan, to look elsewhere for sources of supply.

Export restrictions also exacerbate the rise of global food prices. Last month, when Kazakhstan threatened to limit wheat exports, some wheat prices soared by 25%. Joseph Glauber, chief economist at America's Department of Agriculture, reckons that restraints on the export of wheat may have added as much as 20% to wholesale prices—though not as much at the retail level.

The more prices rise, the greater the incentive to hoard, which creates an upward price spiral. Across Asia, restrictions on the export of rice have helped increase its cost on world markets by about 75%. On March 26th Cambodia became the latest country to ban rice exports. Thailand, the world's largest rice exporter, is also considering restrictions. Meanwhile, there is talk that importers, like China and Japan, are stockpiling rice to safeguard supplies.

Instead of putting up barriers to trade, a better response would be a co-ordinated effort to increase supply. That is something the UN Food and Agriculture Organisation (FAO) and European Bank for Reconstruction and Development sought to broker for Eastern Europe a few weeks ago. The FAO says that 23m hectares of arable land have been withdrawn from production in the former Soviet Union since its collapse, some of which could be put to use.

In an emergency, handouts to hungry citizens are better than export curbs. They could even be paid for by the higher tax revenues from farmers' extra income.

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Trade and migration

How to smite Smoot

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From The Economist print edition

Gains from immigration could be even greater than those from more trade

IN JUNE 1930 the Smoot-Hawley tariff act turned a stockmarket collapse into a crippling, decade-long Depression. Now, politicians seem to be preparing for protectionism even while financial meltdown is going on. Barack Obama and Hillary Clinton vie with each other to be nasty about the North American Free-Trade Agreement. Last year the European Union dropped the principle of "free and undistorted competition" from its Lisbon treaty.

All the more reason, then, to welcome a study* by two eminent trade economists, Kym Anderson of the University of Adelaide and Alan Winters of the University of Sussex. They estimate the losses from such protectionism as already exists; calculate the potential gains that might accrue if—a big if—protectionist temptations were ignored and, more intriguingly, estimate the possible benefits if further migration were encouraged as well.

If you look just at merchandise trade barriers and farm subsidies, the authors reckon, the costs of trade distortion are running at almost $300 billion a year (that figure is the difference between what trade could be by 2015 without distortions and what it actually is, using 2005 as a baseline). This figure is sometimes bandied about at the Doha round of trade talks. It is, the authors reckon, a conservative one.

It assumes all industries respond to liberalisation in the same way, and that competition is perfect, which it is not. The authors show that if you use more realistic assumptions, estimates of the cost of protection actually rise from anywhere between $460 billion a year to over $2.5 trillion. (The wide range is the result of using "computable general-equilibrium models", which are only as good as the assumptions you feed into them.) Whatever the exact amount, these are large sums and far greater than once-fashionable alternatives, such as bilateral deals.

But more trade in goods is only part of economic liberalisation. Another is trade in "factors of production"—like labour. The authors look at what might happen if the share of foreign workers grew to 3% of the labour force of rich countries. This would involve an increase, they say, of 14m people over 25 years (roughly 500,000 a year). The global gains, the authors reckon, would be $675 billion a year by 2025. Even if you subtract the cost of moving to the host country for immigrants and the social-welfare benefits they may get when they arrive, the net benefits are at least twice as much as a Doha agreement (and could be reaped by rich countries unilaterally, if they wanted).

They don't, of course. Politicians are trying to keep migrants out, not let them in. But the study points out the contradictions between such economic nativism and environmental and social policies. Reducing protectionist subsidies would cut greenhouse gases from cosseted heavy industry. Trade-generated growth would reduce poverty and killer diseases. More immigration would give poor countries incentives to build new schools, if only to offset the brain drain. These are all good reasons to quieten protectionist rhetoric—though if the lessons of the Depression cannot do that, would anything else succeed?

*"The Challenge of Reducing International Trade and Migration Barriers." Published by the Copenhagen Consensus 2008 Project.

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Economics focus

Divine intervention

Mar 27th 2008
From The Economist print edition

Under the right conditions, currency intervention can work. So is it time to support the dollar?

Get article background

THE dollar's steep drop this year has triggered speculation that central banks may soon intervene in the foreign-exchange markets to prop up the sickly currency. It will surely be discussed, if *sotto voce*, at the next G7 meeting on April 11th. Policymakers have already embarked on verbal intervention. Jean-Claude Trichet, the president of the European Central Bank (ECB), has said he is “concerned'' by the euro's climb against the dollar; European Union leaders at a summit in Brussels on March 14th said “disorderly” currency moves are “unwelcome”; and Fukushiro Nukaga, Japan's finance minister, has called the dollar's decline “excessive”. Such talk has helped the greenback to rebound from a 12-year low of ¥96 and an all-time low of $1.59 to the euro on March 17th. But can policymakers put their money where their mouths are?

Many academic economists remain sceptical that when central banks buy or sell currencies they can influence exchange rates. After all, their operations are a drop in the ocean compared with the trillions of dollars traded in the markets every day. History is littered with failed interventions—think only of Britain's failure to keep the pound in Europe's exchange-rate mechanism in 1992. However, co-ordinated intervention involving several central banks has had much more success.

Group therapy

Stephen Jen, Morgan Stanley's chief currency economist, claims that joint interventions by the G7 have had a “near perfect record” in turning currencies around. Since 1985 there have been five big examples of co-ordinated action: the Plaza Accord of 1985 to pull the dollar down; the Louvre Accord of 1987 to halt the dollar's slide; the joint intervention by America and Japan to halt the dollar's fall against the yen in 1995; and then to support the yen in 1998; and G7 action to support the euro in 2000. Often intervention did not succeed immediately but, with the exception of the Louvre Accord, later proved to be turning-points, says Mr Jen. This does not mean that co-ordinated intervention is all-powerful; but in the correct circumstances, it is a powerful signalling device for private-sector capital flows.

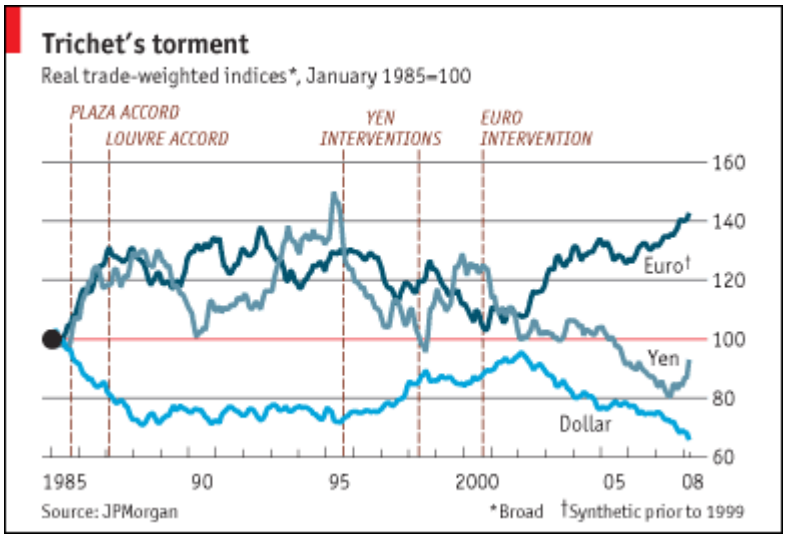
Nor does history support other elements of conventional academic wisdom. For example, it is commonly argued that interventions fail if the central banks “sterilise” them by selling or buying domestic securities. In other words, a central bank trying to prop up its currency must allow its sales of foreign exchange to reduce the domestic money supply. Yet Mr Jen's examination of past joint manoeuvres reveals that sterilised interventions are more effective than commonly believed—America, for example, has sterilised all those that it has conducted and they have mostly been successful. A second, related claim of the sceptics is that if foreign-exchange intervention is not backed by appropriate changes in monetary policy, it will fail. Thus if the objective is to drive up the value of the dollar, the Fed must raise interest rates. Yet Mr Jen finds several examples of central banks succeeding in strengthening their currency while they were easing policy. For instance, the ECB started cutting interest rates soon after the 2000 intervention.

What is true is that almost all previous joint interventions in currency markets were accompanied by changes in monetary policy relative to other countries. These were consistent with the goal of altering the exchange rate. In the campaign to support the euro in 2000, for example, interest rates in the euro area fell more slowly than elsewhere, causing interest-rate differences to move in favour of the euro. Thus the fact that the Fed is easing does not mean it cannot intervene to support the dollar. It does suggest, however, that this will not work unless the ECB also starts cutting rates. With the interest-rate paths of the two central banks going in different directions, rescue efforts are doomed.

Indeed, the main cause of the dollar's recent slide has been the ECB's refusal to cut interest rates

(because of its inflation concerns) while the Fed is slashing rates to support growth. Or to put it another way, the weak dollar is consistent with the economic fundamentals, namely that America is in recession whereas the euro zone is still growing. The ECB will want to see inflation easing and more evidence that growth is slowing before it cuts rates. There is also little chance right now that the American government would join in any action to push up the dollar, because the cheap currency is giving a helpful boost to exports.

On the other hand, the euro is now looking extremely over-valued—and thus ripe for intervention (see chart). Its real trade-weighted exchange rate (the best measure of competitiveness) is at its highest for 35 years. In contrast, the yen still looks cheap. It has gained much more against the dollar this year than has the euro, because increased global risk aversion has reduced the attractiveness of carry trades. But the yen's real trade-weighted exchange rate remains historically weak. It is 40% below its level in 1995, the last time central banks intervened to support the dollar against the yen.



Mr Jen reckons that the probability of co-ordinated intervention has increased as the dollar's depreciation has gained speed. The orderly correction in the currency is in danger of degenerating into a more violent adjustment as dwindling investor confidence in dollar assets creates a vicious circle of capital flows out of the dollar. But until the monetary policies of America and Europe start converging, there is no point in intervention. This implies that the dollar could yet fall further.

Another complication is that since central banks staged their last co-ordinated currency attack in September 2000 the world has changed. Today, almost four-fifths of the globe's dollar reserves are held not by G7 central banks but by emerging economies, notably China and oil producers such as Saudi Arabia. For intervention to be successful, the G7 will probably need their blessing. After years of telling China to stop meddling in the foreign-exchange market, the G7 could find it embarrassing to admit that its members want to intervene themselves.

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Marjorie Deane internship

Mar 27th 2008
From The Economist print edition

Applications are invited for the 2008 Marjorie Deane internship. This award, financed by the Marjorie Deane Foundation, is designed to provide work experience for a promising journalist or would-be journalist, who will spend three months of the summer at *The Economist*, writing about economics and finance. Applicants may also be considered, if they wish, for an internship of similar duration at *CFO Europe*, a sister publication of *The Economist*. Applicants should send a letter introducing themselves, with an original article of no more than 650 words that they think would be suitable for publication in this section of *The Economist*. Applications should be sent by e-mail to deaneintern@economist.com or posted to the Business Affairs Editor (Deane internship), The Economist, 25 St James's Street, London, SW1A 1HG. They must reach us by April 11th.

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Correction: Foreign exchange

Mar 27th 2008
From The Economist print edition

In our story on foreign exchange ("The yen also rises", March 22nd) we wrongly implied that foreign reserves are necessary to intervene to weaken a currency. This is nonsense: you simply print yen and buy dollars.

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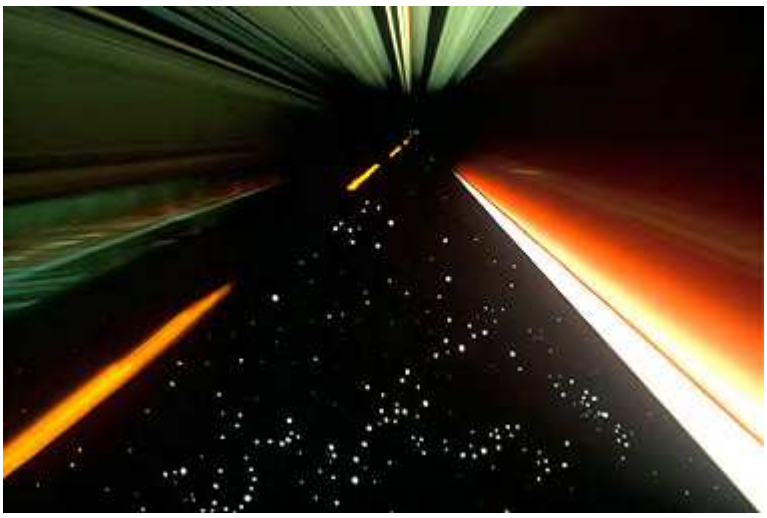
Ultra-fast lasers

Zapping with the light fantastic

Mar 27th 2008
From The Economist print edition

Lasers that pulsate at fantastically fast speeds have applications in engineering, computing and medicine

Alamy



EVEN the blink of an eye is nowhere near fast enough. To get an idea of how quickly the latest ultra-fast lasers operate, try an F-16 fighter. With the throttles fully open at supersonic speed the jet would barely traverse an atom in the same time as a pulse from one of today's fastest lasers.

Instead of emitting a continuous beam, a pulsed laser concentrates its energy into brief bursts. An ultra-fast laser produces fantastically short bursts in which the intensity and power of the pulses can reach mind-boggling levels. Because the pulses happen so quickly, the effects are concentrated in time. This gives ultra-fast lasers valuable properties that their slower predecessors do not have. They can, for instance, cut something out before the energy from the pulse gets a chance to heat up and possibly damage the surrounding area. This means ultra-fast lasers are better at such jobs as cutting and welding, eye surgery and creating some of the smallest man-made structures on the surface of semiconductors.

Lasers have already come a long way. When they were developed in the 1960s they were seen as a solution in search of a problem. But now they can be found in all shapes and sizes and inside all sorts of things, from CD players to supermarket scanners, printers, spectrometers and telecoms equipment. This week Sun Microsystems said it was going to try to replace the wires between silicon chips with tiny lasers to build a new generation of faster computers.

Lasers all work in much the same way: amplifying light into a concentrated beam of a single wavelength or colour. When energy is “pumped” into a laser medium (synthetic ruby was the first to be used to make a red light) the atoms inside become excited and create a chain reaction in which photons of light prompt the generation of more photons. A conventional pulsed laser may take a millisecond (a thousandth of a second) to pump up, but if its pulse is squeezed into only a nanosecond (a billionth of a second), its power is increased a million times.

Hitting the spot

A new record for intensity was recently reported by a team using a titanium-sapphire laser known as HERCULES, which occupies several rooms at the University of Michigan. It produced a beam with 300

terawatts of power (several hundred times the capacity of America's entire electricity grid). But it was concentrated onto a speck a little more than one thousandth of a millimetre across—and it lasted for just 30 femtoseconds (30 million billionths of a second). HERCULES takes about ten seconds to charge up for each pulse, compared with an hour or so for some similar lasers.

Smaller femtosecond lasers are already in production. The precision of their high-intensity pulses and their ability to cause less “collateral damage” to surrounding areas means they can make finer holes in things like medical stents, which are used to keep arteries open, or the nozzles of fuel injectors. Amplitude Systèmes, a French company, produces a femtosecond laser for the engraving of security codes inside transparent materials, like scent bottles or syringes, to help prevent counterfeiting. This could be done with a slower nanosecond laser, but would risk making tiny cracks in the glass, which can cause the contents to deteriorate.

Femtosecond lasers are beginning to be used in medicine, although such applications are at an early stage of development. The extremely short heating time and “cleaner” cuts they produce mean it is possible to remove tissue much more accurately—down to individual cells, says Robert Tzou, of the University of Missouri. Dr Tzou and his colleagues are looking at uses ranging from cutting out burnt skin and melanomas, to dentistry, bonding joint implants to bone, and general surgery.

Groups like the one in Missouri are also investigating exactly how different types of human tissue and bone react to femtosecond lasers. The optimal wavelength, pulse and duration can vary, according not just to which part of the body is being operated on but also to the age of a patient, says Dr Tzou. And the ultra-fast lasers need to be made easier for surgeons to use in operating theatres. Later this year Dr Tzou hopes to have one that will deliver femtosecond pulses along flexible fibre cables, which can be held like a light-pen. Surgeons can also insert fibre lasers into the body to perform precision surgery.

Meanwhile, femtosecond lasers will continue to set speed records and explore new frontiers. Their rapid flashes can be used to “freeze” events that may be impossible to observe by other means. Earlier this year a team at Lund University in Sweden used a laser with pulses measured in attoseconds (billion billionths of a second) to record an electron in motion.

Femtosecond lasers can also be used to interact with other materials and generate particle beams for experiments, says Karl Krushelnick, of the University of Michigan. This could shrink the size and cost of building giant accelerators, which produce sub-atomic particles. Dr Krushelnick thinks laser-powered particle generators could fit into the basements of universities, if not on laboratory benches. That could mean the enormous Large Hadron Collider, now nearing completion inside a 27km tunnel in Geneva at a cost of some $5 billion, is the last of its kind.

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Ball lightning

Great balls of fire!

Mar 27th 2008
From The Economist print edition

Recreating the floating fireballs sometimes seen during thunderstorms

ON A stormy summer's day in the middle of the 18th century a physicist called Georg Richmann had an unfortunate encounter with a rare force of nature. He had set up a rod in his home in St Petersburg to study lightning strikes, but he got more than he bargained for when a pale blue ball of fire emerged from the rod and struck him in the head. Not only did the fireball kill him, but it also blew his shoes apart, knocked out his assistant and tore a nearby door off its hinges.

That fireball was what is now known as ball-lightning, a phenomenon as perplexing as it is spectacular. Thousands of people claim to have seen ball-lightning—glowing, roughly spherical balls of light, usually produced around the time of a thunderstorm—but the details of these sightings vary enormously. The size of the fireballs range from tennis balls to basketballs. They can be red, blue, yellow, white or even green. They may meander along the ground or drop out of the sky. They can pass through windows and emerge from fireplaces. They have even been seen to travel along aeroplane aisles in mid-flight. Philosophers and scientists, from Lucius Seneca to Niels Bohr, have studied the phenomenon and though few have met with the fate of poor Richmann, none has been able to produce a theory that can account for the full range of the lightning balls' observed characteristics.

Eli Jerby and Vladimir Dikhtyar, of Tel Aviv University, have not come up with a full explanation, either. But they may have a partial one. And, coincidentally, it involves those most fashionable of modern-day scientific objects, nanoparticles.

The story began in 2006, when Dr Jerby and Dr Dikhtyar managed to create ball-lightning-like fireballs in their laboratory. They did this by putting pieces of silicon or one of a number of other solid materials inside a shoe-box-sized cavity and zapping the material with microwaves from a metal tip. Once the material had melted, the researchers pulled the metal tip away, dragging material from the molten hotspot. That created a column of fire which then detached itself to form a floating, quivering fireball.

Now, Dr Jerby and Dr Dikhtyar have teamed up with Brian Mitchell of the University of Rennes and his colleagues at the European Synchrotron Radiation Facility (ESRF), a giant X-ray machine in France, to analyse the structure of their fireballs. By making fireballs in the path of the ESRF's X-rays, and observing how the rays are scattered, the researchers have concluded that the balls are full of particles with a diameter of about 50 billionths of a metre. In other words, 50 nanometres. In other words, nanoparticles.

This research, published recently in *Physical Review Letters*, supports a theory put forward several years ago by John Abrahamson, a chemical engineer from the University of Canterbury, in New Zealand. Dr Abrahamson believes that ball-lightning forms when a conventional lightning strike vaporises carbon and silicon oxides found in soil. The carbon strips the silicon of its oxygen, allowing the silicon atoms to group together into nanoparticles as they cool. These nanoparticles then oxidise back into silicon oxides, drawing oxygen from the surrounding air. As they do so, they emit heat and light.

The new work by Messrs Jerby, Dikhtyar, Mitchell and their colleagues is not proof that natural ball-lightning consists of silicon nanoparticles. For one thing, the fireballs produced last for only around 30 milliseconds after the microwave source has been turned off. Natural ball-lightning can last for many seconds. For another, the artificial fireballs seem to be glowing because of the excitation of the atoms within the vaporised material rather than because of oxidation. Moreover, Dr Abrahamson's theory fails to explain how ball-lightning can pass through windows and other solid objects, as some claim.

Excited states

If those observers are correct, some other type of explanation may be needed. One such is that a laser-like phenomenon is involved. Excited water molecules in the air emit microwaves that then stimulate the emission of further microwaves by their neighbours (this is how a laser works). According to Peter Handel of the University of Missouri that can, in the right circumstances, create a standing wave of electromagnetic energy which makes the surrounding air glow. Other, even more esoteric explanations involve antimatter and even tiny black holes left over from the Big Bang.

It is therefore, as Dr Jerby admits, too early to claim victory for the nanoparticle hypothesis. However, he is confident that, eventually, someone will recreate real, long-lived ball-lightning in the laboratory. And when they do he expects this to reveal its true nature without, it is to be hoped, killing anybody first.

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Psychology

Sugaring the decision

Mar 27th 2008
From The Economist print edition

Do not think on an empty stomach

MOST people have experienced the feeling, after a taxing mental work-out, that they cannot be bothered to make any more decisions. If they are forced to, they may do so intuitively, rather than by reasoning. Such apathy is often put down to tiredness, but a study published recently in *Psychological Science* suggests there may be more to it than that. Whether reason or intuition is used may depend simply on the decision-maker's blood-sugar level—which is, itself, affected by the process of reasoning.

E.J. Masicampo and Roy Baumeister of Florida State University discovered this by doing some experiments on that most popular of laboratory animals, the impoverished undergraduate. They asked 121 psychology students who had volunteered for the experiment to watch a silent video of a woman being interviewed that had random words appearing in bold black letters every ten seconds along the perimeter of the video. This was the part of the experiment intended to be mentally taxing. Half of the students were told to focus on the woman, to try to understand what she was saying, and to ignore the words along the perimeter. The other half were given no instructions. Those that had to focus were exerting considerable self-control not to look at the random words.

When the video was over, half of each group was given a glass of lemonade with sugar in it and half was given a glass of lemonade with sugar substitute. Twelve minutes later, when the glucose from the lemonade with sugar in it had had time to enter the students' blood, the researchers administered a decision-making task that was designed to determine if the participant was using intuition or reason to make up his mind.

The students were asked to think about where they wanted to live in the coming year and given three accommodation options that varied both in size and distance from the university campus. Two of the options were good, but in different ways: one was far from the campus, but very large; the other was close to campus, but smaller. The third option was a decoy, similar to one of the good options, but obviously not quite as good. If it was close to campus and small, it was not quite as close as the good close option and slightly smaller. If it was far from campus and large, it was slightly smaller than the good large option and slightly farther away.

A drink to decide

Psychologists have known for a long time that having a decoy option in a decision-making task draws people to choose a reasonable option that is similar to the decoy. Dr Masicampo and Dr Baumeister suspected that students who had been asked to work hard during the video and then been given a drink without any sugar in it would be more likely to rely on intuition when making this decision than those from the other three groups. And that is what happened; 64% of them were swayed by the decoy. Those who had either not had to exert mental energy during the showing of the video or had been given glucose in their lemonade, used reason in their decision-making task and were less likely to be swayed by the decoy.

It is not clear why intuition is independent of glucose. It could be that humans inherited a default nervous system from other mammals that was similar to intuition, and that could make snap decisions about whether to fight or flee regardless of how much glucose was in the body.

Whatever the reason, the upshot seems to be that thinking is, indeed, hard work. And important decisions should not be made on an empty stomach.

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Suspended animation

Smelly sleep

Mar 27th 2008
From The Economist print edition

Researchers find hydrogen sulphide can lower metabolism

THE odour may be horribly familiar from stink bombs and sewage, but new research suggests the foul fumes might not be all bad. Low doses of hydrogen sulphide, a gas which smells like rotten egg, can safely reduce the metabolism of mice, putting them into a state of suspended animation.

Earlier experiments had demonstrated this effect, but it was unclear whether the gas was doing this itself or was acting indirectly by lowering body temperature, which also reduces metabolism. Warren Zapol, of the Massachusetts General Hospital and a professor of anaesthesia at Harvard Medical School, along with his colleagues, monitored the vital signs of mice exposed to low-dosages (80 parts per million) of hydrogen sulphide for several hours. The mice were split into two groups. Half were exposed to the gas at room temperature and half in a warm environment to keep their body temperatures from dropping.

The mice's consumption of oxygen and production of carbon dioxide dropped ten minutes after they began inhaling hydrogen sulphide and remained extremely low as long as the gas was administered. In spite of reduced respiration, oxygen levels in the blood of the mice did not change, suggesting that no part of the body was at risk of being starved of oxygen. Heart rates also fell by nearly half without much effect on blood pressure or the strength of the heart-beat. When the mice were given pure air again, they returned to normal within less than 30 minutes. Mice in both the normal and warm environments responded similarly, suggesting that the gas is directly responsible.

The finding, reported in the latest edition of *Anesthesiology*, has a number of potential applications. Stasis induced by hydrogen sulphide could, for instance, help save the lives of severely injured people if medical treatment is not readily available. More speculatively, it could make long-distance space travel more feasible by slowing down ageing and reducing the consumption of oxygen and food. But these tests were on mice, and the effects on people could be very different—not least because they might complain about the smell.

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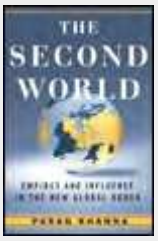
Geopolitical trends

The empires strike back

Mar 27th 2008
From The Economist print edition

Two books about how the world is changing reach very different conclusions

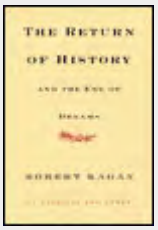
The Second World: Empires and Influence in the New World Order
By Parag Khanna



Random House; 496 pages; $29.
Allen Lane; £25

Buy it at
Amazon.com
Amazon.co.uk

The Return of History and the End of Dreams
By Robert Kagan



Knopf; 112 pages; $19.95.
Atlantic Books; £12.99

Buy it at
Amazon.com
Amazon.co.uk

Illustration by Daniel Pudles

ON THE face of it, these two books are about the same thing: the great trends in geopolitics as the economic power of Asia grows and as the world grimaces at America in the aftermath of the Iraq war. Yet they could hardly be more different. Parag Khanna's is a long, complicated book on the basis of which he has drawn a simple—well, simplistic—conclusion: that the world is now dominated by three great empires, those of America, China and the European Union. Robert Kagan's is a short, simple book which states that the world is much more complicated than it once appeared. Mr Kagan's is the better of the two, by a wide margin.

What is impressive about Mr Khanna's book, however, is its range and ambition. Drawing inspiration from Arnold Toynbee's tour of the globe half a century ago for his “East to West: A Journey Round the World”, Mr Khanna, a scholar at the New America Foundation in Washington, DC, decided to set off on his own travels. He visited more than 50 countries, most of them in what he calls “the second world”, by which he means something between the rich developed West and the poorest parts of Africa. His tour thus took him to Ukraine, Turkey, the Balkans and the Caucasus; to the “stans” of Central Asia and the borderlands of China; to Latin America, to the Middle East and to East Asia.

The vast bulk of his quite bulky book consists of pen pictures of all these countries and regions and of what he found there. As a collection of essays the range is impressive, but taken one by one they are unremarkable: the observations are not terribly vivid, the analysis not terribly deep, and this reviewer kept on being tripped over by strange judgments and misconceptions. Turkey, for example, is said to have become more anti-American, which is surely true, but also much more sympathetic to the European Union (EU). Given Turkey's frustration at the lack of progress in its EU membership negotiations, this is certainly not the case. Japan, Mr Khanna thinks, has been “seduced” by China, a judgment he seems to base only on trade and investment statistics rather than any other evidence, since most of it would point the other way. The Chinese certainly don't think they have the Japanese safely in their bed. As evidence of Europe's global influence he says that the *Financial Times* has a wider circulation than the *New York Times*, even though its total sales are less than half as big and two-thirds of them is in Europe itself.

The common thread that Mr Khanna discerns from all his travels is that everywhere he goes he finds signs of influence coming from three outside forces: America, China and the EU. He sees the future of the world being shaped by those three “empires”. Of the three, China is rising but problematic; America is declining, incompetent and arrogant; and the EU is rather cuddlier, cleverer and more powerful than even many proud Europeans would think. Other countries you might think of as potential great powers—India, Russia or Brazil, for example—are thought of by Mr Khanna simply as also-rans. India he wafts aside in a roughly 500-word box, at the end of a chapter on China, as too chaotic to count. If it rises at all, he claims, it will do so according to Chinese rules.

Mr Kagan probably never left his study while preparing “The Return of History and the End of Dreams”. He has written just over 100 pages, the type is large and the spacing generous. Yet his book is subtle and deep where Mr Khanna's is clunky and shallow. His argument is that the short period after the end of the cold war when it was said that ideological conflict was over and that liberal democracy had prevailed was a delusion; we are now, he says, back in a world of clashing national ambitions and interests, one more akin to the 19th century than to the 1990s.

In that world there are no simple formulae for predicting or managing national behaviour. It is not a world in which one power—America—is dominant, though it remains the single most influential and capable country on a global scale, even after its debacle in Iraq. Nor is it a world, on his account, in which just three “empires” hold sway in any sort of triangular balance. It is a world in which many countries and their ruling elites are jostling for position and advantage, some of them keen to prove that today's assumptions about influence and status can and will be overturned. If there is a broad trend to be discerned in recent years it is the revival of autocracy as a sometimes effective and even legitimate form of government. If there is a neat dividing line, it is the line between the democracies and the autocracies. But using that line in the operation of foreign policy is no easier now than it has ever been. One thing that both authors do agree on is that the dream of a simple, safe world has gone for good.

The Second World: Empires and Influence in the New World Order.
By Parag Khanna.
Random House; 496 pages; $29.
Allen Lane; £25

The Return of History and the End of Dreams.
By Robert Kagan.
Knopf; 112 pages; $19.95. Atlantic Books; £12.99

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American conservatism

Opportunity missed

Mar 27th 2008
From The Economist print edition

EVERY Wednesday morning some 120 members of what Hillary Clinton once termed America's "vast right-wing conspiracy" meet in downtown Washington, DC, to listen to news of the latest liberal assaults on America's liberties, plan their moves and counter-moves, and bask in the light of visiting luminaries such as Karl Rove and Newt Gingrich.

The meetings' impresario is Grover Norquist, a free-market fundamentalist who combines Vladimir Ilyich Lenin's flair for organisation-building (he heads Americans for Tax Reform and is part of many other pressure groups) with Lenin's predilection for facial hair. "Leave Us Alone" is his statement of conservative principles and a call to arms.

According to Mr Norquist, America is engaged in a life-and-death struggle between two great political coalitions: the "leave us alone coalition" (gun-owners, people of faith, entrepreneurs) and the "takings coalition" (bureaucrats, holier-than-thou liberals and rent-seekers). The key that will decide who wins this battle is taxation. "In politics, taxation is not the most important thing," he argues, "it is the only thing." Turn the key one way, and America remains America; turn it the other way and it becomes Europe, with lethargic growth, structural unemployment and scrotum-shrinking dependence on big government.

Leave Us Alone: Getting the Government's Hands Off Our Money, Our Guns, Our Lives
By Grover Norquist

William Morrow; 384 pages; $26.95

Buy it at
Amazon.com
Amazon.co.uk

Mr Norquist has much to say on the relative strengths of these two coalitions. He worries about the rapid decline of hunting. He celebrates the fact that conservatives have more children than liberals and that this trend is increasing: the fertility gap between liberals and conservatives, he says, rose from 22.9% in 1974 to 41.5% in 2004. But, for all his ideological confidence and statistical fluency, his book is a disappointing assessment of the state of American conservatism.

Mr Norquist does little to defuse the obvious objection to his argument: that many Republicans believe in legislating morality (including banning abortion) while many Democrats believe that the government should leave people alone when it comes to sex (or its consequences). He also says little of interest about the multiple Republican failures of recent years. Surely the growth of government under George Bush suggests that, even if you ignore sex and just concentrate on economics, there is no simple distinction between the "leave us alone coalition" and the "takings coalition"? Many Republicans are only happy with less government when it punishes the other side. And surely the tight relationship between the Republican Party and the lobbying industry suggests that rent-seeking is not an affliction that is confined to one side? Mr Norquist's silence on this last point is particularly disappointing given his central role in the "K-Street Project", a campaign that was intended to encourage lobbying firms to employ more Republicans.

Mr Norquist is also surprisingly silent about the debate on the future direction of conservatism. A growing number of conservatives are worried that their movement's fixation on Mr Norquist's government-loathing hero, Ronald Reagan, is becoming counter-productive. Some neo-conservatives argue that conservatism needs to make its peace with big government in order to concentrate on salvaging the war on terrorism. And some conservative populists insist that their movement needs to do more to win over anxious working-class voters.

The fact that Mr Norquist is happier reiterating his well-known views rather than engaging with conservative "heretics" means that "Leave Us Alone" is more of a missed opportunity than a manifesto for a new Reaganism.

Leave Us Alone: Getting the Government's Hands Off Our Money, Our Guns, Our Lives.

By Grover Norquist.
William Morrow; 384 pages; $26.95

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The Shias in Iraq

Riding the tiger

Mar 27th 2008
From The Economist print edition

Get article background

NO ONE quite knows what to make of Muqtada al-Sadr, the radical young Shia cleric who was suddenly thrust into prominence after the toppling of Saddam Hussein. Is he the firebrand of journalistic cliché? An *ingénu* tilting at the windmills of American power? Or the savvy leader of Iraq's only genuine mass movement?

As the power struggle among the Iraqi Shias intensifies, with this week's crackdown on militias in Basra, Patrick Cockburn's book is cleverly timed. It is something less than a biography: its central character does not come on stage until the ninth chapter, and even then remains tantalisingly lifeless. The book is really about the struggle of the Iraqi Shias for power, and its author takes some trouble to set the scene. The Muqtada story makes no sense without a knowledge of the centrality of the holy cities of Najaf and Karbala in the collective consciousness of the Shias; it also needs an account of Saddam's harsh suppression of the Shia religious establishment, including the assassination of both Mr Sadr's father and his father-in-law.

AFP

Rounding up his troops

Mr Cockburn has a reporter's eye for detail and for the absurdities of power. For him, Saddam Hussein was as much Inspector Clouseau as Josef Stalin and his personality cult was often laughably absurd. A portrait of the great leader in tweeds climbing a mountain slope in what looks like Austria reminds him of “a scene from ‘The Sound of Music’ with Saddam about to burst into song.”

Mr Cockburn argues that the Americans have consistently underestimated the Sadrist phenomenon, sometimes with fateful consequences. Paul Bremer, America's former viceroy in Baghdad, loathed Mr Sadr and managed to prompt a fierce Shia backlash by shutting down one of his newspapers. Mr Cockburn believes there is evidence the Americans later tried to kill him after the second of his two revolts against them in 2004.

Mr Sadr is certainly militantly anti-American. But if he were no more than that—merely the Shia equivalent of the Sunni insurgents of al-Qaeda—he would be a good deal less interesting. The book's plausible central thesis is that the young cleric has learnt from his mistakes. After twice confronting American power in futile rebellion, he decided to enter the very political process he had previously derided. His movement took part in the elections of 2005, winning the biggest block—32 seats—in the 275-member parliament and gaining control of a number of ministries (including health) which greatly enhanced its power of patronage.

Recent events are putting his thesis to the test. The young cleric remains an ambiguous figure: nominally part of the political process, yet frequently at odds with it. Mr Cockburn does not gloss over the brutalities of the Sadrist militia, the Mahdi Army. In February 2006 Sunni extremists blew up the famous golden dome of the Askariya shrine, a revered Shia holy place in Samarra. The Mahdi Army responded

Muqtada: Muqtada al-Sadr, the Shia Revival, and the Struggle for Iraq
By Patrick Cockburn

Scribner; 240 pages; $24. Published in Britain as "Muqtada al-Sadr and the Fall of Iraq"; Faber and Faber; £16.99

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with savage reprisal attacks which served to push the country into civil war. The ceasefire Mr Sadr declared last summer helped subdue sectarian violence and earned him unwonted compliments from American generals. But now, as the Shia power struggle turns ugly, this ceasefire is in danger of collapse.

At the heart of Mr Cockburn's story is a man riding a tiger. “It was the strength of Muqtada that he could mobilise the Shia masses, the millions of angry and very poor young men whom nobody else in Iraq represented. His weakness was that he could not control them and he knew the risk of being denigrated as a dangerous and destructive troublemaker.” If Mr Sadr returns to open rebellion, he will destroy his pretensions to national leadership. If he clings to the political path, his disparate movement may split apart. Either course would have grim consequences for the future of Iraq.

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New fiction

Still lost in the wilderness

Mar 27th 2008
From The Economist print edition

ONCE tarred with the brush of greatness, how many novelists really manage to produce great work without some sort of re-invention? Philip Roth published “Portnoy's Complaint” in 1969, then spent the next years turning out thin Americana like “Our Gang” and “The Great American Novel”. Not until “The Counterlife”, in 1986, did he find his more mature voice. After the frenetic, generous genius of “Humboldt's Gift” in 1975, Saul Bellow wandered for 25 years until “Ravelstein” emerged in 2000.

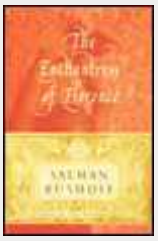
“The Enchantress of Florence” shows, alas, that Salman Rushdie remains in the wandering period that began 13 years ago after the vital, kinetic brilliance of “The Moor's Last Sigh”. At the novel's centre is a blond European who calls himself Mogor dell'Amore (“Mughal of love”) and presents himself at the Mughal court in India as a long-lost relation to Emperor Akbar—the offspring of Akbar's grandfather's sister and a Florentine mercenary who happened to be a boyhood friend of “il Machia”: Niccolo Machiavelli.

Promising as this premise seems, the book contains far too many phrases like this: “Akbar the Great, the great great one, great in his greatness, doubly great, so great that the repetition in his title was not only appropriate but necessary in order to express the gloriousness of his glory”, which accounts for about the first fifth of a sentence. The source bibliography comprises six pages at the back of the book, and it shows: Mr Rushdie does not wear his research lightly. Paragraph by paragraph, this is a carefully wrought and often exquisite book, but the overall effect is as rich and stultifying as a month-long diet of foie gras.

Of course, like Bellow and Mr Roth, Mr Rushdie's mediocre writing exceeds most novelists' best. But Mr Rushdie ought to bear in mind that a novelist is at heart a storyteller, not a serial creator of self-delighting sentences.

The Enchantress of Florence.
By Salman Rushdie.
Jonathan Cape; 368 pages; £18.99. To be published in America by Random House in June

The Enchantress of Florence
By Salman Rushdie



Jonathan Cape; 368 pages; £18.99. To be published in America by Random House in June

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Economic ideas

Sachs appeal

Mar 27th 2008
From The Economist print edition

IF GILBERT AND SULLIVAN were looking for the very model of a modern intellectual, they would surely pick Jeffrey Sachs. He is so “right on” that when *Time* magazine featured him in its global list of people who influence the world, his profile was written by Bono, a rock singer. His job titles—director of the Earth Institute and special adviser to the United Nations Secretary-General on the Millennium Development Goals—seem almost tailor-made to get up the noses of conservatives.

Nor is Mr Sachs lacking in ambition. His previous book was called “The End of Poverty”. Now he has moved on to tackle a wide range of other challenges facing the planet, from climate change through to disease eradication. His goals include stabilisation of the world's population, a move to sustainable energy use and “a new approach to global problem solving”.

If the above makes Mr Sachs sound like an impractical dreamer, that would be rather unfair. This densely written book is packed with statistics and carefully worded arguments. Nor is the author a left-wing ideologue. He recognises that the private sector and market-based solutions have a vital role to play. He cites, for example, the success achieved by public-private sector initiatives in tackling acid rain and chlorofluorocarbon emissions.

Common Wealth: Economics For a Crowded Planet
By Jeffrey D. Sachs

Penguin Press; 374 pages; $27.95. Allen Lane; £22

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On population control, he makes the good (if counter-intuitive) point that improvements in infant mortality are an important part of the solution. When families know that more of their children will survive into adulthood, they have fewer kids. Reduced fertility in turn leads to improved living standards and, eventually, by cutting the numbers of idle and impoverished young men, reduces the potential for conflict and terrorism. As he remarks, this makes the Bush administration's negative attitude towards family planning even more difficult to understand.

Courageously, Mr Sachs does not ignore costs. He reckons the bill for tackling the issues he raises will come to a total of 2.4% of rich-world economic output (about one year's growth). That seems a reasonable price to pay, provided of course that you are not paying it. Indeed, the book's rather jaunty tone plays down some of the hard choices that will need to be made if the world's problems are to be tackled. On climate change, Mr Sachs is very enthusiastic about carbon capture and sequestration, a technology that is unproven on a large scale and will be difficult to adapt to existing power plants. One must also doubt whether all the world's cars could really be converted into gas-electric hybrids by 2026, as he suggests.

This brings us to the main problem with the book: it is unremittingly worthy and expects other people to be so too. When the author writes that a post-Kyoto agreement on climate change “should include all actors, not just the rich ones, and not just the rich ones who are willing to reduce emissions”, one wonders how many real people would vote for that. Similarly, he says blithely that “in order to combat poverty and inequality, it is also essential to combat racism and intolerance.”

If everyone in the world were as reasonable as Mr Sachs, his solutions would be easy to implement. However, if everyone were that reasonable, there would not be so many problems in the first place.

Common Wealth: Economics For a Crowded Planet.
By Jeffrey D. Sachs.
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Marie-Antoinette

From the garden to the guillotine

Mar 27th 2008 | PARIS
From The Economist print edition

A new exhibition brings to life France's most famous and tragic queen

THE many roles played by Marie-Antoinette are on display in a new exhibition at the Grand Palais in Paris. With over 300 artworks from all over Europe, this is a rich show by any standard. But the curators' masterstroke was to enlist Robert Carsen to design the exhibition. An innovative Canadian opera director, Mr Carsen makes bold use of scenery, lighting and music. The result is a dramatically theatrical journey through the life of France's last queen.

Freedom, and the lack of it, are underlying themes. The first rooms, painted a deep crimson and filled with portraits and furniture, evoke Marie-Antoinette's childhood in Austria, where she was the 15th of 16 children at the Habsburg court, presided over by the formidable Empress Maria Theresa. A simple gouache, painted in 1762 by one of Marie-Antoinette's sisters, depicts the emperor relaxing in his robe and slippers, while the empress fusses over her brood.

Such informality would have been unthinkable at Versailles, where the archduchess was despatched in 1770, aged 14, to marry the portly dauphin, in an alliance between France and Austria. Her age and inexperience are poignantly evident in the blotchy, meandering signature on the couple's marriage contract, on display in one of the austere blue rooms that capture the rigidity of Versailles.

France's rehabilitation of Marie-Antoinette began in 1858 with a biography by the Goncourt brothers and continues today with books by Evelyne Lever, a historian. Yet Mr Carsen insists this exhibition is not simply the latest repackaging. “Our aim is to give as complete a picture as possible of a complex woman,” he says.

The show's highlight is an evocation of the Petit Trianon, the queen's “pleasure house” in the grounds of the royal palace at Versailles. Marie-Antoinette's love of interior decoration is conveyed through the exquisite furniture and porcelain with which she surrounded herself, such as her mother-of-pearl and gilded bronze writing desk. “We wanted to convey her intelligent approach to design, when she was given the freedom to commission her own work,” Mr Carsen says.

Five giant backdrops beckon the visitor into the Trianon garden by night. With music by Gluck, her favourite composer, in the background, the softly lit room is lined with portraits of the queen's inner circle (including handsome Count Axel Fersen, with whom she may have had an affair). Her much-loved harp stands near a remarkable set of chairs, elaborately upholstered with floral motifs (and still sporting their original fabric), created for her boudoir by Georges Jacob.

Not far from this idyll, the French were lampooning “Madame Deficit” in grotesque pamphlets. By the 1780s not even the idealised royal portraits by Elisabeth Vigeé Le Brun, seen here in all their splendour, could rescue her reputation. The music has faded away by the time visitors come to the last room, where objects are imprisoned in long, narrow showcases. There is a lock of hair, the chemise Marie-Antoinette wore in the Temple prison, and the tiny prayer book in which she penned a final message to her children. Brutal cartoons depicting the royal couple as a two-headed beast and the queen as sexually voracious face a wall of ever-hopeful quotations. “Something inside me says we will soon be happy and safe,” she wrote to Fersen as late as 1792. Just one year later the reality, captured by Jacques-Louis David, was very different. The artist sketched the queen, by then aged 37, as she passed by his window in a tumbrel, hair cut short and hands tied behind her back, ready for the guillotine.

“Marie-Antoinette” is at the Galeries Nationales du Grand Palais, Paris, until June 30th

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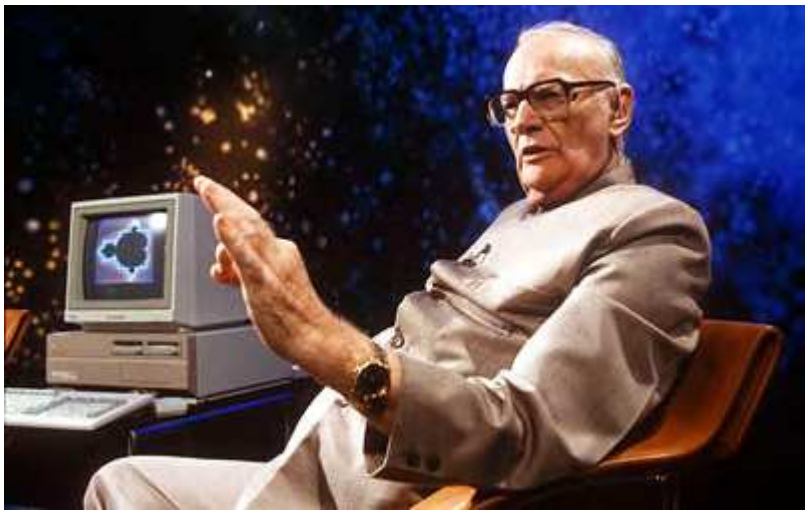
Arthur C. Clarke

Mar 27th 2008
From The Economist print edition

Sir Arthur C. Clarke, visionary, died on March 18th, aged 90

Rex Features



ALTHOUGH he dreamed and wrote about it constantly for 70 years, Arthur C. Clarke never voyaged into space. He came closest to visiting alien worlds through his love of deep-sea diving, its weightlessness and strange life forms. But he always looked upwards with a gleam in his eye, hoping for the real thing. “I can never look now at the Milky Way”, said the narrator in “The Sentinel”, “without wondering from which of those banked clouds of stars the emissaries are coming. If you will pardon so commonplace a simile, we have set off the fire alarm and have nothing to do but to wait. I do not think we will have to wait for long.”

Did Sir Arthur believe in extra-terrestrials? The answer was given with a smile. “Two possibilities exist: either we are alone in the universe or we are not. Both are equally terrifying.” And UFOs? A broader smile. “They tell us absolutely nothing about intelligence elsewhere in the universe, but they do prove how rare it is on Earth.” For all his star-gazing, Sir Arthur's feet were firmly on the ground.

He did not predict the future in his copious science fiction, he insisted. He simply extrapolated. After all, he had written six stories about the end of the Earth; they couldn't all be true. The point was never to say what would happen for certain, but to ask what might happen; to prepare people painlessly for the future and to encourage flexible thinking. Politicians, he thought, ought to read his books rather than westerns or detective stories, because imagination could pave the way for revolutionary practical ideas.

In 1945, a year before he began to read physics and mathematics at King's College, he set out in the British magazine *Wireless World* the principles of global communication using satellites. The idea was two decades ahead of its time, and helped to attach his name to the geostationary orbit above the equator. In 1962, at the chilliest part of the cold war and just after the launch of *Sputnik* had heralded the space age, he discussed in “Profiles of the Future” the implications of transatlantic satellite radio and television broadcasts, with information raining down on previously isolated parts of the world. “Men will become neighbours,” he wrote. “Whether they like it or not...The TV satellite is mightier than the ICBM.”

He also got things wrong, of course. He predicted that humans would land on Mars—by 1994, then by 2010. In the early days, he also believed that a human presence in space would be important for work such as servicing satellites. His cosmic visions left him with little patience for lowlier, grittier issues of politics and economics. Those, he wrote, were concerned with “power and wealth, neither of which should be the primary...concern of full-grown men”. To him, it seemed self-evident that humanity would welcome the technological path towards evolution, whatever the cost. “The dinosaurs disappeared because they could not adapt to their changing environment. We shall disappear if we cannot adapt to an environment that now contains spaceships, computers—and thermonuclear weapons.”

From ape to Star Child

Few could have foreseen the track of his career at the start. He was born poor, on a farm, near the small coastal town of Minehead in the west of England in 1917. Space, rockets and science sprang out of the pages of the pulp science-fiction magazines he bought in Woolworths for threepence each, and which he could not always afford. His brother Fred remembered him building telescopes and launching home-made rockets. Science fiction inspired him—though his first job after leaving school was in the down-to-earth British civil service, which gave him plenty of time to think and write. From there, imagining the possible and the probable gradually took over.

His notions of the future remained unswervingly radical. Sir Arthur knew that outlandish ideas often became reality. But they provoked, he wrote, three stages of reaction. First, “It's completely impossible.” Second, “It's possible but not worth doing.” Third, “I said it was a good idea all along.” He believed, for example, that humans would one day build lifts that could take them into space using only electrical power, and that men would be able to transfer their thoughts into machines. The space-lifts, he reckoned, would become reality a few decades after people stopped laughing at the idea. “Any sufficiently advanced technology”, he declared, “is indistinguishable from magic.”

By the 2020s he thought it likely that artificial intelligence would reach human level, dinosaurs would be cloned, and neurological research into the senses would mean that mankind could bypass information from the ears, eyes and skin. By 2050, he said, millions of bored human beings would freeze themselves in order to emigrate into the future to find adventure. He was not religious, and was no metaphysician; but he wanted and expected men to evolve until they became like gods. In “2001: A Space Odyssey” (1968), which he co-wrote with Stanley Kubrick, ape-man evolved into Star Child.

His epitaph for himself would have well suited man as he wanted him to be. “He never grew up; but he never stopped growing.”

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Overview

Mar 27th 2008
From The Economist print edition

There were fresh signs that **America's economy** is in trouble. The index of consumer confidence compiled by the Conference Board, a New York-based research group, fell from 76.4 in February to a five-year low of 64.5 in March. The S&P/Case-Shiller home-price index, which covers ten large cities, fell by 11.4% in the year to January, the largest decline since the series began in 1987. Sales of new homes fell by 1.8% in February, to the lowest level in 13 years. The one bright spot was a 2.9% rise in sales of existing homes in February, but that still left them 23.8% lower than a year earlier.

By contrast, prospects for the **euro area** economy seem a little rosier. Business confidence in Germany rose for a third successive month in March, according to Ifo, a Munich-based research institute. INSEE, France's statistics agency, reported a surprise pick-up in the country's business confidence. Italian business did not share the good cheer: the ISAE's sentiment gauge slipped to its lowest level since August 2005.

Iceland's central bank raised its benchmark interest rate by 1.25 percentage points, to 15%, on March 25th. The bank said that inflation had been higher, demand stronger and the exchange rate weaker than it had hoped. It warned that it would need to maintain high interest rates to bring inflation under control and to restore confidence in Iceland's currency.

The National Bank of **Poland** raised its main interest rate from 5.5% to 5.75%.

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Output, prices and jobs

Mar 27th 2008
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	rate‡, %
United States	+2.5 Q4	+0.6	+1.5	+2.2	+1.0 Feb	+4.0 Feb	+2.4	+3.2	4.8 Feb
Japan	+2.0 Q4	+3.5	+1.4	+1.6	+2.2 Jan	+0.7 Jan	nil	+0.6	3.8 Jan
China	+11.2 Q4	na	+9.8	+9.0	+15.4 Feb	+8.7 Feb	+2.7	+4.5	9.5 2007
Britain	+2.9 Q4	+2.3	+1.9	+2.0	+0.4 Jan	+2.5 Feb§	+2.8	+2.4	5.2 Jan††
Canada	+2.9 Q4	+0.8	+1.7	+2.2	−1.3 Dec	+1.8 Feb	+2.0	+1.9	5.8 Feb
Euro area	+2.2 Q4	+1.6	+1.7	+1.8	+3.8 Jan	+3.3 Feb	+1.8	+2.5	7.1 Jan
Austria	+3.0 Q4	+2.3	+2.5	+2.3	+3.4 Dec	+3.2 Feb	+1.6	+2.1	4.2 Jan
Belgium	+2.4 Q4	+2.0	+1.9	+1.9	−1.9 Dec	+3.6 Feb	+1.8	+2.4	10.7 Feb‡‡
France	+2.1 Q4	+1.4	+1.6	+1.7	+2.7 Jan	+2.8 Feb	+1.0	+2.2	7.5 Q4§§
Germany	+1.8 Q4	+1.1	+1.7	+1.9	+7.0 Jan	+2.8 Feb	−6.0	+2.1	8.0 Feb
Greece	+3.6 Q4	+2.8	+2.4	+2.6	+1.6 Jan	+4.4 Feb	+2.7	+3.3	8.9 Dec
Italy	+1.9 Q3	+1.7	+1.0	+1.4	+0.5 Jan	+2.9 Feb	+1.8	+2.4	6.0 Q4
Netherlands	+4.5 Q4	+4.8	+2.3	+2.1	+2.0 Jan	+2.2 Feb	+1.5	+2.0	4.1 Feb††
Spain	+3.5 Q4	+3.2	+2.4	+2.1	−0.2 Jan	+4.4 Feb	+2.4	+3.5	8.8 Jan
Czech Republic	+6.6 Q4	+7.0	+4.7	+5.4	+9.3 Jan	+7.5 Feb	+1.5	+6.5	5.9 Feb
Denmark	+2.0 Q4	+1.8	+1.6	+1.8	−1.8 Jan	+3.1 Feb	+1.9	+2.2	2.1 Jan
Hungary	+0.7 Q4	+0.8	+2.5	+3.6	+6.6 Jan	+6.9 Feb	+8.8	+5.7	8.1 Jan††
Norway	+4.7 Q4	+5.2	+2.9	+2.6	−1.4 Jan	+3.7 Feb	+0.8	+3.1	2.4 Dec††
Poland	+6.1 Q4	na	+5.1	+4.3	+14.9 Feb	+4.2 Feb	+1.9	+4.0	11.5 Feb‡‡
Russia	+7.7 Q3	na	+7.0	+6.0	+7.5 Feb	+12.7 Feb	+7.6	+12.5	5.8 Jan‡‡
Sweden	+2.8 Q4	+3.1	+2.6	+2.5	+3.8 Jan	+3.1 Feb	+2.0	+2.6	6.1 Feb‡‡
Switzerland	+3.6 Q4	+4.2	+2.0	+1.9	+9.1 Q4	+2.4 Feb	nil	+1.6	2.5 Jan
Turkey	+1.5 Q3	na	+3.7	+5.4	−0.4 Jan	+9.1 Feb	+10.2	+8.4	10.1 Q4‡‡
Australia	+3.9 Q4	+2.4	+3.3	+3.2	+1.6 Q3	+3.0 Q4	+3.3	+3.1	4.0 Feb
Hong Kong	+6.7 Q4	+6.6	+4.0	+4.6	−0.3 Q4	+6.3 Feb	+0.8	+4.0	3.3 Feb††
India	+8.4 Q4	na	+7.8	+7.2	+5.3 Jan	+5.5 Jan	+6.7	+5.8	7.2 2007
Indonesia	+6.3 Q4	na	+5.9	+6.3	+5.0 Jan	+7.4 Feb	+6.3	+6.8	9.8 Feb
Malaysia	+7.3 Q4	na	+5.5	+5.7	+7.0 Jan	+2.7 Feb	+3.1	+2.8	3.1 Q3
Pakistan	+7.0 2007**	na	+5.0	+5.3	−4.1 Dec	+11.3 Feb	+7.4	+9.3	6.2 2006
Singapore	+5.4 Q4	−4.8	+4.4	+4.7	+10.0 Feb	+6.5 Feb	+0.6	+3.3	1.6 Q4
South Korea	+5.5 Q4	+6.3	+4.5	+4.4	+11.8 Jan	+3.6 Feb	+2.2	+2.9	3.0 Feb
Taiwan	+6.4 Q4	na	+4.5	+4.3	+15.2 Feb	+3.9 Feb	−2.2	+1.7	4.0 Feb
Thailand	+5.7 Q4	+7.3	+4.8	+4.3	+12.5 Jan	+5.4 Feb	+2.3	+3.9	0.8 Dec
Argentina	+9.1 Q4	+8.0	+5.7	+4.5	+9.3 Feb	+8.4 Feb	+9.6	+10.9	7.5 Q4‡‡
Brazil	+6.2 Q4	+6.4	+4.3	+4.1	+8.5 Jan	+4.6 Feb	+3.0	+4.7	8.0 Jan‡‡
Chile	+4.0 Q4	+3.7	+4.0	+4.6	+4.4 Jan	+8.1 Feb	+2.7	+5.9	7.2 Jan†††‡‡
Colombia	+6.6 Q3	+6.9	+4.5	+4.0	+5.7 Jan	+6.4 Feb	+5.3	+5.3	13.1 Jan‡‡
Mexico	+3.8 Q4	+3.0	+1.9	+3.0	+3.1 Jan	+3.7 Feb	+4.1	+4.1	3.8 Feb‡‡
Venezuela	+8.5 Q4	na	+5.5	+4.6	−2.5 Dec	+25.2 Feb	+20.4	+27.8	6.7 Q4‡‡
Egypt	+8.1 Q4	na	+7.4	+6.9	+7.5 2007**	+12.1 Feb	+12.6	+9.8	9.0 Q4‡‡
Israel	+6.8 Q4	+6.4	+3.5	+4.1	+5.3 Jan	+3.6 Feb	−0.8	+2.9	6.8 Q4
Saudi Arabia	+3.5 2007	na	+6.0	+5.6	na	+8.7 Feb	+3.0	+7.5	na
South Africa	+4.6 Q4	+5.3	+4.1	+4.8	+1.4 Jan	+9.8 Feb	+5.7	+7.0	25.5 Mar‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+4.8 Q4	+3.2	+4.0	+4.3	+4.1 Jan	+11.3 Feb	+4.7	+9.0	5.6 Jan
Finland	+3.7 Q4	+3.8	+3.0	+3.0	+2.3 Jan	+3.7 Feb	+2.2	+3.0	6.2 Feb
Iceland	+4.6 Q4	+1.2	+2.0	+3.3	+0.4 2007	+6.8 Feb	+7.4	+5.0	1.0 Feb‡‡
Ireland	+3.5 Q4	−3.3	+2.4	+2.6	+1.8 Jan	+4.8 Feb	+4.8	+3.0	5.2 Feb
Latvia	+8.0 Q4	na	+5.8	+6.0	−0.1 Jan	+16.7 Feb	+7.2	+10.5	5.0 Feb
Lithuania	+7.9 Q4	−4.3	+7.2	+6.4	na	+10.8 Feb	+4.3	+7.8	4.7 Feb‡‡
Luxembourg	+5.6 Q3	+2.8	+4.9	+4.8	+5.2 Jan	+3.1 Feb	+2.0	+3.1	4.6 Feb‡‡
New Zealand	+3.4 Q3	+1.1	+1.8	+2.6	+1.3 Q3	+3.2 Q4	+2.6	+2.9	3.4 Q4
Peru	+10.1 Jan	na	+6.3	+6.7	+10.0 Jan	+4.8 Feb	+0.4	+3.7	9.4 Jan‡‡
Philippines	+7.3 Q4	+7.4	+5.4	+5.5	−1.8 Dec	+5.4 Feb	+2.6	+4.0	7.4 Q1‡‡
Portugal	+2.0 Q4	+3.0	+1.8	+2.1	−1.4 Jan	+2.9 Feb	+2.4	+2.3	7.8 Q4‡‡
Slovakia	+14.3 Q4	na	+7.5	+5.7	+8.4 Jan	+4.0 Feb	+2.7	+3.0	7.8 Feb††
Slovenia	+4.7 Q4	na	+4.6	+4.0	−0.1 Dec	+6.5 Feb	+2.1	+4.4	7.4 Jan‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 4.1% in Feb. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. §§New series.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Mar 27th 2008
From The Economist print edition

The Economist commodity-price index

2000=100

	Mar 18th	Mar 25th*	% change on one month	% change on one year
Dollar index				
All items	260.5	254.7	–1.4	+32.0
Food	261.0	253.2	–1.6	+60.1
Industrials				
All	260.0	256.6	–1.2	+7.9
Nfa†	190.9	189.6	–3.9	+21.0
Metals	297.8	293.2	–0.2	+3.9
Sterling index				
All items	195.4	193.1	–2.7	+29.8
Euro index				
All items	152.6	151.0	–5.9	+13.0
Gold				
$ per oz	1004.85	923.15	–2.1	+45.6
West Texas Intermediate				
$ per barrel	109.21	101.55	+0.5	+61.3

*Provisional †Non-food agriculturals.

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Natural disasters

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From The Economist print edition

More than 4,000 people died or went missing as a result of Cyclone Sidr, 2007's biggest killer, which caused flooding in Bangladesh last November. Swiss Re, an insurance company, puts the (mostly uninsured) cost of destroyed homes, damaged crops and lost livestock at $2.3 billion. The insurer reckons the total economic cost of natural and man-made catastrophes was more than $70 billion; related claims on insurers totalled $28 billion. Kyrill, a winter storm that caused flooding in Western Europe, led to the largest insurance loss. The storm claimed 54 lives and cost insurers $6.1 billion. Floods in Britain during the summer claimed fewer lives than America's storm season, but had a higher economic cost.

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Trade, exchange rates, budget balances and interest rates

Mar 27th 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2008†	Currency units, per $ Mar 26th	Currency units, per $ year ago	Budget balance % of GDP 2008†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−819.2 Jan	−738.6 Q4	−4.7	–	–	−2.4	2.26	3.49
Japan	+105.4 Jan	+214.7 Jan	+4.7	99.1	116	−2.7	0.75	1.26
China	+250.0 Feb	+249.9 2006	+10.4	7.03	7.73	0.2	4.50	3.98
Britain	−177.2 Jan	−129.4 Q3	−3.8	0.50	0.51	−3.2	6.01	4.43
Canada	+44.8 Jan	+12.5 Q4	+0.4	1.02	1.16	0.3	1.85	3.59
Euro area	+19.6 Jan	−1.2 Jan	−0.1	0.63	0.75	−1.0	4.72	3.87
Austria	+0.4 Dec	+10.9 Q3	+2.7	0.63	0.75	−0.4	4.72	4.10
Belgium	+15.4 Jan	+13.3 Sep	+2.0	0.63	0.75	−0.5	4.78	4.32
France	−56.3 Jan	−36.9 Jan	−1.3	0.63	0.75	−2.8	4.72	4.10
Germany	+263.5 Jan	+256.7 Jan	+5.2	0.63	0.75	0.8	4.72	3.88
Greece	−57.1 Dec	−48.3 Dec	−12.0	0.63	0.75	−2.7	4.71	4.48
Italy	−14.1 Jan	−51.1 Jan	−2.3	0.63	0.75	−2.8	4.72	4.43
Netherlands	+57.2 Jan	+50.1 Q3	+6.8	0.63	0.75	0.5	4.72	4.12
Spain	−139.6 Jan	−146.0 Dec	−9.1	0.63	0.75	nil	4.72	4.24
Czech Republic	+4.4 Jan	−4.3 Jan	−3.2	16.2	21.0	−2.6	4.11	4.72
Denmark	+3.4 Jan	+3.3 Jan	+1.8	4.73	5.57	3.6	5.25	4.16
Hungary	−0.2 Jan	−6.8 Q3	−5.9	163	187	−4.1	8.14	8.10
Norway	+63.1 Feb	+64.1 Q4	+15.8	5.09	6.07	17.9	6.20	4.29
Poland	−12.2 Jan	−16.2 Jan	−4.0	2.24	2.91	−1.8	6.06	5.95
Russia	+140.6 Jan	+76.6 Q4	+4.0	23.5	26.0	1.2	10.25	6.59
Sweden	+19.1 Feb	+38.1 Q4	+6.1	5.98	6.99	1.5	4.11	3.94
Switzerland	+11.9 Feb	+69.6 Q3	+14.6	1.00	1.21	0.7	2.85	2.83
Turkey	−64.5 Jan	−38.9 Jan	−7.7	1.27	1.40	−2.9	13.35	6.51‡
Australia	−19.7 Jan	−56.4 Q4	−5.6	1.09	1.24	1.5	7.76	6.10
Hong Kong	−23.9 Jan	+27.4 Q4	+8.8	7.78	7.81	3.1	1.83	2.35
India	−75.4 Jan	−10.9 Q3	−2.0	40.2	43.0	−3.1	7.29	8.09
Indonesia	+40.0 Jan	+11.0 Q4	+2.1	9,180	9,150	−1.8	8.15	6.58‡
Malaysia	+30.1 Jan	+28.7 Q3	+13.9	3.19	3.46	−3.1	3.62	3.41‡
Pakistan	−16.9 Feb	−8.4 Q4	−7.0	62.8	60.6	−5.3	10.23	9.42‡
Singapore	+34.8 Feb	+39.1 Q4	+23.5	1.38	1.52	1.0	1.38	2.20
South Korea	+8.3 Feb	+3.8 Jan	+0.5	987	939	0.2	5.32	5.39
Taiwan	+15.7 Feb	+31.7 Q4	+5.0	30.0	33.1	−1.6	2.70	2.23
Thailand	+11.5 Jan	+15.0 Jan	+2.6	31.4	35.0	−2.8	3.25	3.90
Argentina	+11.9 Jan	+7.3 Q4	+2.5	3.17	3.11	0.9	10.44	na
Brazil	+36.5 Feb	−4.9 Feb	−0.4	1.74	2.08	−1.8	11.18	6.16‡
Chile	+23.0 Feb	+7.2 Q4	+3.8	446	541	5.4	6.48	3.79‡
Colombia	−0.8 Dec	−5.2 Q3	−4.3	1,820	2,173	−1.6	9.53	5.74‡
Mexico	−11.7 Jan	−7.4 Q4	−1.5	10.7	11.1	nil	7.43	7.49
Venezuela	+23.7 Q4	+20.0 Q4	+4.7	4.00	4.23§	−2.6	14.36	6.55‡
Egypt	−20.5 Q4	+0.5 Q1	+0.9	5.47	5.70	−7.0	5.73	5.08‡
Israel	−11.0 Feb	+5.0 Q4	+2.2	3.49	4.18	−1.4	3.33	5.08
Saudi Arabia	+146.4 2007	+98.9 2006	+22.8	3.75	3.75	12.8	2.26	na
South Africa	−10.0 Jan	−20.6 Q4	−8.0	8.04	7.38	0.6	11.45	9.19
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−4.4 Jan	−3.3 Jan	−13.1	9.93	11.7	0.6	6.35	na
Finland	+12.0 Jan	+11.6 Jan	+3.8	0.63	0.75	4.6	4.63	4.08
Iceland	−1.6 Feb	−3.2 Q4	−11.1	74.5	66.2	3.1	15.21	na
Ireland	+36.3 Jan	−11.1 Q3	−3.8	0.63	0.75	−0.5	4.72	4.28
Latvia	−7.2 Jan	−6.4 Jan	−18.2	0.44	0.53	1.0	5.56	na
Lithuania	−7.3 Jan	−5.6 Jan	−12.0	2.19	2.58	−0.6	4.86	na
Luxembourg	−6.1 Dec	+4.7 Q3	na	0.63	0.75	0.9	4.72	na
New Zealand	−3.6 Jan	−10.2 Q3	−7.5	1.25	1.41	3.0	7.35	6.43
Peru	+8.3 Jan	+1.5 Q4	−0.2	2.77	3.18	1.0	5.19	na
Philippines	−6.1 Jan	+6.4 Dec	+4.6	41.7	48.2	−0.2	6.44	na
Portugal	−26.6 Dec	−21.0 Dec	−8.1	0.63	0.75	−2.6	4.72	4.31
Slovakia	−0.9 Jan	−0.5 Nov	−2.8	20.7	25.1	−2.3	4.21	4.39
Slovenia	−3.1 Jan	−2.2 Dec	−2.5	0.63	0.75	−0.8	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Mar 27th 2008
From The Economist print edition

Markets

	Index Mar 26th	% change on one week	% change on Dec 31st 2007 in local currency	% change on Dec 31st 2007 in $ terms
United States (DJIA)	12,422.9	+2.7	−6.3	−6.3
United States (S&P 500)	1,341.1	+3.3	−8.7	−8.7
United States (NAScomp)	2,324.4	+5.2	−12.4	−12.4
Japan (Nikkei 225)	12,706.6	+3.6	−17.0	−6.5
Japan (Topix)	1,237.6	+3.4	−16.1	−5.5
China (SSEA)	3,784.3	−4.1	−31.5	−28.8
China (SSEB, $ terms)	261.4	+2.6	−31.2	−28.6
Britain (FTSE 100)	5,660.4	+2.1	−12.3	−11.9
Canada (S&P TSX)	13,391.9	+5.4	−3.2	−6.1
Euro area (FTSE Euro 100)	1,139.4	+2.5	−17.1	−10.7
Euro area (DJ STOXX 50)	3,611.5	+2.3	−17.9	−11.5
Austria (ATX)	3,671.7	+2.0	−18.6	−12.3
Belgium (Bel 20)	3,686.2	+1.2	−10.7	−3.7
France (CAC 40)	4,676.7	+2.6	−16.7	−10.2
Germany (DAX)*	6,489.3	+2.0	−19.6	−13.3
Greece (Athex Comp)	3,809.1	−0.4	−26.4	−20.7
Italy (S&P/MIB)	31,281.0	+1.3	−18.9	−12.5
Netherlands (AEX)	438.1	+2.6	−15.1	−8.4
Spain (Madrid SE)	1,449.8	+3.2	−11.7	−4.8
Czech Republic (PX)	1,510.7	−0.6	−16.8	−6.4
Denmark (OMXCB)	396.1	+2.9	−11.7	−4.9
Hungary (BUX)	21,752.6	+0.8	−17.1	−11.9
Norway (OSEAX)	465.4	+1.3	−18.4	−13.0
Poland (WIG)	47,381.0	+1.5	−14.9	−6.5
Russia (RTS, $ terms)	1,995.2	−1.1	−16.5	−12.9
Sweden (Aff.Gen)	296.7	+2.6	−12.8	−5.7
Switzerland (SMI)	7,184.6	+1.6	−15.3	−3.7
Turkey (ISE)	40,658.5	−0.6	−26.8	−32.4
Australia (All Ord.)	5,421.3	+1.3	−15.6	−11.3
Hong Kong (Hang Seng)	22,617.0	+3.4	−18.7	−18.5
India (BSE)	16,086.8	+7.3	−20.7	−22.2
Indonesia (JSX)	2,440.6	+5.0	−11.1	−9.1
Malaysia (KLSE)	1,245.4	+5.0	−13.8	−10.7
Pakistan (KSE)	15,198.9	+1.6	+8.0	+5.9
Singapore (STI)	2,995.2	+5.7	−13.6	−9.9
South Korea (KOSPI)	1,679.7	+3.5	−11.5	−16.0
Taiwan (TWI)	8,768.0	+7.2	+3.1	+11.5
Thailand (SET)	817.6	+1.2	−4.7	+2.2
Argentina (MERV)	2,079.8	+3.3	−3.3	−3.9
Brazil (BVSP)	61,415.0	+4.4	−3.9	−1.4
Chile (IGPA)	13,286.9	+0.8	−5.6	+5.4
Colombia (IGBC)	9,001.6	−1.3	−15.8	−6.7
Mexico (IPC)	30,057.3	+3.4	+1.8	+3.9
Venezuela (IBC)	35,059.4	−0.7	−7.5	−50.3
Egypt (Case 30)	11,113.5	+1.9	+6.1	+7.0
Israel (TA-100)	954.5	+4.1	−17.3	−8.8
Saudi Arabia (Tadawul)	9,418.3	−0.7	+18.7	+18.7
South Africa (JSE AS)	29,693.2	+0.6	+2.5	−12.8
Europe (FTSEurofirst 300)	1,258.5	+2.3	−16.5	−10.0
World, dev'd (MSCI)	1,446.7	+3.3	−8.9	−8.9
Emerging markets (MSCI)	1,107.6	+3.9	−11.1	−11.1
World, all (MSCI)	366.2	+3.4	−9.2	−9.2
World bonds (Citigroup)	799.5	nil	+9.5	+9.5
EMBI+ (JPMorgan)	436.3	+0.1	+0.6	+0.6
Hedge funds (HFRX)	1,292.5	+0.8	−2.8	−2.8
Volatility, US (VIX)	22.5	21.6	22.5	(levels)
CDSs, Eur (iTRAXX)†	110.9	nil	+213.5	+237.9
CDSs, N Am (CDX)†	169.0	−0.6	+113.0	+113.0
Carbon trading (EU ETS) €	22.5	+4.2	+1.2	+9.1

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

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European bond spreads

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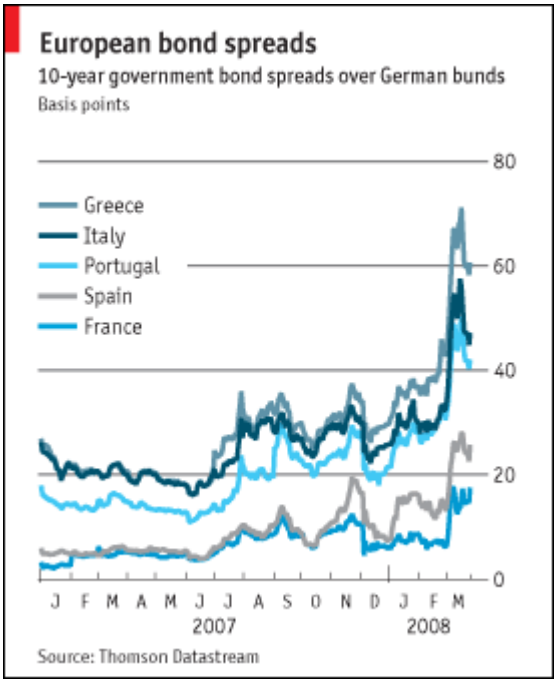
From The Economist print edition



As the credit crunch drags on, markets are driving a harder bargain with even sovereign borrowers in rich countries. The interest-rate spread between Germany's government bonds and those of other euro-area countries has widened sharply. The shift is most marked for countries with shaky public finances: Italy's public debt was 105% of its GDP last year; the ratio in Greece was 93%. Both countries are set to run budget deficits of 2-3% of GDP this year. But even Spain, which has low debt and a budget surplus, has been penalised. This suggests that solvency is not the markets' main worry. Rather, investors are demanding a higher price for holding debt that trades in less liquid markets than Germany's bonds do.

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